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December 2008

Centre
for Fashion
Enterprise

CFE

The UK Designer Fashion Economy

Value relationships –
identifying barriers and
creating opportunities
for business growth

Dr Neri Karra



Report commissioned for:

NESTA Making
Innovation
Flourish

The UK Designer Fashion Economy

Value relationships – identifying barriers and creating opportunities for business growth

Foreword

It has become increasingly evident to us that the UK designer fashion industry is neither recognised nor understood by those outside it. The Designer Fashion Economy is a high-end luxury industry; it is very different from the wider UK fashion industry, which embraces retailing, clothing and fashion as well as beauty products.

This research is an important first step towards understanding the UK Designer Fashion Economy. It will provide a benchmark for the future. The Centre for Fashion Enterprise proposed that the initial focus for research should be the relationships that make up creative businesses. NESTA concurred: to understand how to grow designer fashion businesses, credible research into likely future developments was more important than a full economic audit of the industry, as it would provide insights into how these relationships could be managed and enhanced.

This research is a testament to the talent and resourcefulness of UK designers and a reminder of the opportunities we have to shape the UK economy. You can look at the Designer Fashion Economy and think it is relatively small based on its accumulated turnovers. However when you see its global impact on international brands, retail and the media, you soon recognise its international influence. Then we can begin to gauge the sector's wider economic impact, in generating content and revenue to those industries. Indeed, one might say that UK fashion designers are the most influential global players of all.

Apart from the report itself, another significant outcome of the research comes from the group sessions which steered this project. The group involved individuals from all aspects of the Designer Fashion Economy, and they wondered why we had not got together before to discuss our industry. After all, we all want a stronger, better represented and more co-ordinated designer fashion industry.

The research also tells us to sharpen up and be cleverer in how we operate and compete globally. Being smart and thinking as one industry can make the most of the breadth of talent, opportunity and commitment in designer fashion, and help us towards long-term growth, sustainability and financial success.

Wendy Malem MBA FCSD

Director, Centre for Fashion Enterprise

December, 2008

Executive Summary

The UK is renowned as the birthplace of some of the world's most creative and innovative designer fashion labels. These labels have an important economic impact on the UK, particularly London. British designer fashion labels are largely wholesale operations, enhanced and underpinned by a wide-reaching supply chain and intermediary community. This research set out to show the added value created within this wider supply chain and community, and identify where intervention could support growth within the broad UK designer fashion sector. Our focus was on assessing:

- Key relationships that sustain designer fashion businesses: with retail, with manufacturers, with investors and with intermediaries.
- Business categories operating in this sector.
- Key barriers to growth in the sector.

New business categories

The research depicts a highly internationalised sector, dominated by London-based small and medium sized enterprises. We identified seven distinctive types of business or business categories, each with its own unique characteristics:

- **Artisan** – Designer driven purely by aesthetic motivation.
- **Creative Partnership** – Two creative people.
- **Solo** – Individual designer focused on growth.
- **Designer and Business Partner** – One creative and one business partner.
- **Designer and Licensing Partner** – Designer under royalty contract.
- **Designer and Manufacturer** – Designer in contractual agreement with manufacturer.
- **Partnership with Investor** – Designer in partnership with a formal investor.

Enterprises typically adopt these business categories at different stages of their growth. As a business develops and grows, it needs improved management skills, capital, production capabilities and far-reaching distribution channels:

- Micro and start-up businesses (turnover under £250,000 pa) typically adopt Artisan, Creative Partnership or Solo categories.
- Small businesses (turnover £250,000-£2 million pa) typically adopt Designer and Business Partner, Designer and Licensing Partner or Designer and Manufacturer categories.

- Medium businesses (turnover £2-£8 million pa) typically adopt Designer and Business Partner or Partnership with Investor categories.

Key business relationships

The UK fashion industry is valued at £1.6 billion.¹ London has its own unique selling point as the launch pad for many of the world's most innovative designer labels. Investigating the key business relationships has improved our understanding of the designers' operations and provided much needed evidence of the barriers and challenges affecting the industry.

Investor relationships

The UK Designer Fashion Economy² comprises many micro and small businesses that generate significant media attention, but whose growth is impeded by lack of finance. The research confirms that:

- There are three types of investors in the Design Fashion Economy:
 - Emotional investors: family, friends and investors attracted by fashion itself. They are the largest group of funders.
 - Strategic investors: typically equity investors, business angels or venture capitalists. Exceptionally difficult to attract to small and even medium businesses, they are unlikely to look at investments under £20 million.
 - Debt financiers: banks, loan schemes and insurance schemes. Easier to secure, but offering little development assistance or expertise.
- The nature of fashion design makes it harder to access finance: Fashion businesses' assets are intangible with copyright difficult to protect on new designs; returns are uncertain; and product innovation does not easily translate into formal business structures.
- While investors are aware of these risks, some see fashion as 'cool, different, exciting and more glamorous' compared to other investment opportunities.
- Designers are generally nervous about partnerships with investors, fearing loss of control of their company, and are reluctant to share profits in return.
- Designer fashion investment needs to be longer-term than other venture capital investments. Typically investors want a return on their investment in as little as three years. Despite its high profile, designer fashion can take much longer to become profitable.

Manufacturer relationships

The relationship between designers and manufacturers is, somewhat surprisingly, often international: most designers manufacture in more than one country; 40 per cent of the sample make clothes in three or more countries. Moreover, these relationships tend to be the most problematic of all the sector's business relationships:

- Designers and manufacturers have mismatched expectations and don't understand each others' business operations.
- Key points of tension include: on-time delivery; quality; high cost, particularly for small orders; payment terms and their effect on designer cash flow; lack of specialist skills; lack of investment in technology; trust.
- Few manufacturers can afford to offer credit terms. Most demand cash on delivery, while micro and small businesses generally have inadequate capital in the early stages of their venture.

Retailer relationships

Designers' relationships with retailers are often easier. Stores often want to be seen discovering and supporting emerging designers: as the brand grows, these relationships become more professional. But, there are still challenges and barriers inhibiting growth:

- High-end designer labels often hold back on their early sales expansion, in the hope of being picked up by one of the top stores or boutiques, which will enhance their credibility.
- Designers need international sales to sustain their business. Only 19 per cent of designers questioned sold solely in the UK.
- New York and Paris Fashion Weeks are considered the most important sales trade fairs, and London Fashion Week is often bypassed by international buyers, who tend to leave their buying decisions for Paris (which follows London).

1. In retail terms.

2. The term we apply to the wider sector, including its supply chain and wider community.

- Retailers increasingly want novelty from designers, expecting up to five collections a year compared with two annually in the past. Limited finance and production management skills inhibit the smaller designer firms from taking advantage of this trend.
- Key buyers may not buy from an emerging designer for fear of non-delivery or poor manufacturing quality, though they will confidently buy a designer brand backed by the credibility of the licence partner company.

Intermediary relationships

The UK has a dynamic network of intermediaries – people who help to influence retailers and consumers in favour of particular designers – who are often not recognised by those outside the sector. The research demonstrates that successful designer-intermediary relationships underpin most designers' businesses:

- There are three important types of intermediary for designer business growth:
 - Aesthetic service providers – stylists, models and photographers. Stylists are particularly important for managing editorial work and exposure, developing portfolios, advertising and gaining access to retailers.
 - Sales agents – providing designers with sales expertise as well as access to specific regional markets.
 - PR agents and the press – communicating the designer's brand to the trade and consumer.
- Building a consistent brand story or strategic brand identity is crucial in establishing successful relationships with intermediaries.
- Intermediaries must believe in the brands they are helping to promote.
- Designers must have a sales and retailer presence before any promotion so that consumers can buy the promoted products immediately.

Recommendations

There is a clear need to improve awareness of the sector as a whole – and to develop a strong vision for it – by engaging in dialogue at all levels across the sector. Different stakeholders, institutions and agencies currently work to support and strengthen the sector as it struggles through the economic downturn and the jostling between the international fashion weeks. Improved communications will help create a shared vision and should assist in winning government support.

- Develop an awareness of the sector as a whole – and a vision for it – through discussions across the Designer Fashion Economy and by developing relationships with other key bodies.
- Work to reverse the shortage of high-level skills across the industry.
- Develop investor relationships and investment readiness with designers.
- Support investment into high-end manufacturers to meet market need.
- Create a plan to support designers building new routes to market including exports.

While these are issues to which agencies should respond, this emphasis on barriers and recommendations does not detract from the sector's resourceful and innovative character. The research provides a first valuable insight into designer businesses, and a much needed evidence base to inform any future interventions.

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Part 1: Introduction

The UK is renowned as the birthplace of some of the world's most creative and innovative designer fashion labels: these labels have a major economic impact, especially in London.

estimate that there are around 400 active UK designer businesses, from start-ups through to mature businesses.⁵

The scale of the UK designer fashion sector

The designer sector is distinct from the general clothing sector: its more exclusive, high value products are often marketed through international fashion shows and its high-end designers are still the main fashion trendsetters. These trends underpin the wider fashion industry, as well as adding value to many lifestyle and consumer products that increasingly look to the designer sector for inspiration and content.

The UK designer fashion sector is recognised by the Department for Culture, Media and Sport (DCMS) as one of its Creative Industries, focusing on its wholesale operations. But formal definitions of the sector fail to include the wide-reaching supply chain and intermediaries, or to acknowledge the significant contribution that the sector makes to the UK economy. The UK adult designer clothing market alone reached £1.9 billion in 2007,³ and represented 6.5 per cent of the entire adult clothing market. It grew by 2.5 per cent for 2007.⁴

There is no official count of the number of UK high-end designer businesses. But a good indicator is provided during London Fashion Week. The September 2008 official Fashion Week Exhibition at the Natural History Museum had over 200 brands exhibiting. Adding other showroom venues during the week, we

General characteristics of a designer fashion business

The designer fashion sector, as defined by DCMS, largely comprises design businesses with wholesale operations. Our research confirms that they generally work to a minimum of a two-seasonal product launch schedule, and that they share many infrastructural characteristics:

- Micro and small designer businesses generally tend to rely on significant freelance expertise and student interns to build their teams, rather than employing permanent staff. Larger businesses have the revenues to build larger teams.
- The businesses undertake research and development activities, source fabrics and trims, and develop new collections at least every six months. However, this pattern is changing, and additional collections are now being launched more frequently by the larger, more established designer businesses.
- The fashion industry has a different sales and marketing pattern from many other industries, in that fashion weeks and their associated trade fairs have a significant importance. Each collection is usually launched at one or more of the international trade fairs, with the assistance of a sales agent for the first few seasons of an enterprise's development, after which

3. Retail figures for 2007 (Mintel, 2008).

4. Ibid.

5. Our estimate allows for the fact that the main exhibition included some non-UK businesses, in addition to firms producing accessories as well as women's wear. Other venues included several hotels, the Royal Academy venue as well as sales agents' and PR agents' showrooms.

permanent in-house sales staff are typically employed.

- The goal is to build international sales fairly quickly (cash flow permitting) as the UK domestic market is not large enough to sustain all its designer brands.
- The businesses build their brands on very small initial budgets. They work with London's PR agencies to generate press interest. Many also seek sponsorship to generate further media exposure through catwalk presentations.
- Designers quickly build mutually profitable relationships with stylists attracted to the capital, who can broker celebrity endorsements, promote creative collaborations, generate media coverage and attract sponsorship.
- Whilst the designer businesses are at the micro stage, most manufacturing is done in the UK. As the business grows and orders increase, it can cut costs by developing relationships with manufacturers overseas where volumes are higher and production costs lower.
- As designer businesses grow, many attempt to expand into retail operations alongside their wholesale activities. These range from flagship London stores to online boutiques.

Key research findings

A key part of the research focused on analysing four key business relationships within the industry: the relationship with investors, manufacturers, retailers and intermediaries. These were mapped against seven business categories. The survey showed that manufacturer and investor relationships present particular challenges for Fashion Design Businesses: these challenges need to be addressed to strengthen the sector's growth potential. The relationships are discussed in Section 3.

Designer business categories

Our analysis identified seven different business categories – or types of business – that have evolved within designer businesses' practices. As they grow, fashion design businesses

need to access external resources (finance, distribution and manufacturing) which require the formation of new relationships with external partners. Each of the seven business categories constitutes a different level of interaction, with its own advantages and challenges. Each category has its own identified barriers and stages that need to be cleared before growing to the next level. The categories are:

1. Artisan – Designer driven purely by aesthetic motivation.
2. Creative Partnership – Two creative people.
3. Solo – Individual designer focused on growth.
4. Designer and Business Partner – One creative and one business partner.
5. Designer and Licensing Partner – Designer under royalty contract.
6. Designer and Manufacturer – Designer in contractual agreement with manufacturer.
7. Partnership with Investor – Designer in partnership with a formal investor.

These are described in detail in Section 4.

An international business

Overall, our research has found that UK designer fashion businesses have unexpectedly strong international links, with many examples of the overseas sourcing of manufacturing and fabrics. They enjoy excellent relationships with the international fashion press, employ international sales and PR agents, and take part in international trade fairs. As a result, their international sales are rapidly growing.

London as an opportunity

Although we interviewed fashion businesses across the UK, references to London were common.

London Fashion Week is seen by most designers to be very influential, receiving substantial press coverage, introducing new designers and setting new trends and styles in the fashion industry as a whole. However, our

interviewees believe that there are better sales opportunities in other 'fashion capitals'.

The research confirms that London is viewed as the UK's designer fashion capital. The capital is seen as an influential hub for talent, trends, and creativity. Designers noted that the high concentration of stylists, models, photographers, and other creative businesses in the city created important opportunities for networking, collaboration and growth. London also hosts many of the leading fashion colleges and specialist fashion service providers. Most designers recognise London's importance, regardless of their own location.

All the key ingredients for a successful Designer Fashion Economy are already in London. Most UK buying offices, fashion press, sales agents, PR agents and model agencies are based there, as well as some international intermediaries. The sector is also supported by a vast number of freelance photographers, stylists, make-up artists, master pattern cutters and skilled machinists who are attracted to London by the strong demand for their services. Future research should consider the links between fashion businesses and the freelance community, showing the size of that community and mapping its collaborations with other sectors – such data is not currently collected by regulatory bodies.

London is also the leading cluster for creative industries which are complementary to the designer fashion sector: film, advertising and PR agencies, media, photography and model agencies, as well as new media companies. There are particularly strong cross-links between the sector and other creative industries including architecture, music, film and advertising.

Not all the buying takes place in London Fashion Week. Trade fairs during Paris Fashion Week are seen as the place to sell, primarily because of the larger number of designers and retailers attending them. Designers scheduled to launch in London can also find it hard to confirm sufficient sales appointments during London Fashion Week's relatively short time span. Buyers prefer to make their final purchasing decisions in Paris. Several designers noted that as a consequence of this, London designers who become established tend to leave the capital and start showing in New York, Paris or Milan.

The origins of this research

This research was developed because of a lack of knowledge about the scale and value of the designer fashion sector. This is why NESTA, the Centre for Fashion Enterprise (CFE) and London College of Fashion commissioned research that will provide data about the sector, and give insights into how relationships within the supply chain can be managed and improved. This should help to enhance understanding of the sector and its barriers to growth, and inform the development of policies better able to support creativity and expansion.

Our key objectives for the research are:

- To investigate and evaluate the key relationships that characterise the designer fashion business, focusing on retail, intermediary, manufacturer and investor relationships.
- To identify the dominant business categories in the Designer Fashion Economy (DFE), and their characteristics.
- To identify factors driving the growth of the DFE and identify key milestones for growth.
- To identify the key issues and barriers to growth faced by designer fashion businesses of different sizes.

From the research findings and further peer consultations, we have also identified opportunities for intervention that could reduce or eliminate barriers to growth, support the growth of fashion businesses, and contribute to expansion. A range of policy recommendations is proposed in Section 5.

Part 2: Research methodology

The research addresses three key questions:

1. What are the characteristics, opportunities, barriers to growth, and challenges in the UK's designer fashion sector?
2. What innovative and sustainable business categories have emerged in the industry?
3. What are the features of the four key relationships we have identified – with retailers; with intermediaries (e.g. PR, sales agents, stylists); with investors; with manufacturers?

These questions were investigated through a qualitative, interview-based study focused on women's wear in the high-end luxury sector of the market. The sample was split between UK-based designer businesses that have been trading for three to five years and those trading for more than five years, irrespective of their marketing channels (catwalk, trade fairs, private showrooms or sales agents). Start-ups who have been trading for two years or fewer were excluded as they are less likely to have established the relationships and business categories in which we are interested. Non-UK based designers were also excluded from the study. Future research to provide international comparisons would be useful.

The research sample focuses predominantly on designers who operate as wholesale businesses and whose operations typically include research and development, design, prototype development, marketing, sales and wholesale distribution activities. We also interviewed businesses critical to the industry's success: manufacturers, retailers, investors and intermediaries including PR, sales and licensing agents.

The sample reflects the geography of the sector: 81.5 per cent of respondents were based in London. Although the rest of the research was conducted in the North West of England and Scotland, regional designer businesses often gravitate towards London after two or three years in business. Even those that remain in the regions turn to London for sales and PR activities.

A database of 80 companies meeting the research criteria was assembled through internet searches of London Fashion Week exhibitors and through recommendations from PR and sales agents specialising in this market. In-depth interviews were conducted with a total of 52 businesses, face-to-face and/or by telephone (see Appendix 2). Identities have been anonymised where requested.

Table 1: Sample composition by type and location

Region	Total Sample	Designers	Manufacturers	Retailers	Intermediaries	Investors
London	41	20	6	4	7	4
Regional	11	7	1	0	3	0
Total sample	52	27	7	4	10	4

We analysed the data in three stages. First, we looked at the history of the designer businesses to understand how they were founded and developed, and which particular innovative practices contributed to their survival. Then, we focused on relationships between designers and manufacturers, retailers and intermediaries, paying particular attention to the respondents' perceptions of opportunities, challenges and innovative practices in the industry.

Finally, we went back to several respondents to pursue emergent themes and to gain more detailed insight into emerging business categories. We held monthly meetings and workshops with key industry insiders and Steering Committee members (listed in Appendix 3). During these workshops, we presented emerging themes and findings to the participants in order to further validate, refine and analyse the findings, and to steer subsequent research.

Part 3: Key designer business relationships

This section uses our research data to explore the relationships that designer businesses form with investors, manufacturers, retailers and intermediaries to support growth. We discuss the dynamics of these relationships, how they are formed, what tensions and barriers to growth may exist, as well as an assessment of where the relationships offer added value to the designer companies.

3.1 Designer relationships with investors and financiers

Designer businesses of all sizes face barriers in obtaining funding. The funding gap for UK entrepreneurs has been well documented (Storey, 2000) and stems initially from their high level of intangible assets (Stiglitz and Weiss, 1981). The value of designer fashion products is concentrated in the design and the brand, and in the 'head' of the founder designer. Protection of design is difficult, if not impossible, for both micro and small companies; even after a brand has established itself, the design label only affords some protection. Consequently, investors face a particularly high level of risk. Innovation finance for fashion is deterred by the difficulties of collecting investment returns from the highly visual information-intensive goods epitomised by high-end fashion. And fashion designer businesses – like high-tech entrepreneurs – may demonstrate a limited ability to translate innovative designs into sustainable businesses. A lack of formal organisational and managerial competence deters potential investors.

Nonetheless, designer businesses have a potential advantage over other investments.

Many investors perceive an element of glamour in being involved in a designer business, compared to other investment, endorsement and licensing opportunities. Three investors told us they invested in a label because fashion is 'cool, different, exciting, and more glamorous'. However, investors from non-traditional backgrounds can put the designer at a disadvantage, since growing a business requires good strategic management and new networks as well as money.

Many designers are satisfied with remaining as small businesses and have no ambitions to scale up. However, for those that aim at growth, the decision to accept external finance is one of the most important they will make. Many start-up labels can generate some market presence with their own money, or friends' and family funding, but a significant level of capital is required to jump rapidly from a micro/small firm to a medium size enterprise. Our interviews, however, revealed a general lack of funding for designer businesses, alongside a lack of awareness about existing funding options. This differs from other comparable sectors where public support schemes⁶ aid early-stage development and training in going through a funding due diligence. Because the designer fashion sector has only recently attracted government interest, it has no comparable programmes. Identifying a designer business's funding needs, developing a fund-raising strategy and engaging with investors are key stages in the growth of the fashion venture; these need to be tailored to its business category.

The research identified three main examples of groups of investors/financiers attracted to the designer fashion sector, as set out in Table 12.

6. Such as the Department for Business Enterprise and Regulatory Reform (BERR), R&D Grants and Proof of Concept awards, or business angel co-investment programmes, including NESTA's support for high-tech entrepreneurs.

Table 2: Main groupings of investors in the Designer Fashion Economy

Emotional investors	Family or friend investors Private investors who invest in luxury, fashion, and lifestyle because they love fashion
Strategic investors	Investment consultants who are also private investors Large brands who invest and bring access to manufacturing Manufacturing groups who invest in a designer for credibility and access to design capabilities
Debt financiers	Invoice factoring schemes available through banks Small firms loan schemes (bank and DTI co-secured) Insurance schemes

Emotional investors

A striking finding of the research is that emotional investment – by family or friends of the designer – constituted the majority of capital available to our case study designers: investors were predominantly in the ‘friends, family and fools’ category rather than conventional business angels and venture capitalists. One respondent, for example, emphasised that despite the unprofitability of the label they had invested in, they could not *“get rid of it, because Mr. X (the investor) kind of bought it for his daughter, who, a long time ago, thought she might want to become a designer”* (Investor 3). Similarly, another investor supported a fashion label because of its glamour and ‘coolness’, and because she *“just likes it”* (Investor 4).

Such informal investors usually lack extensive knowledge and expertise in the fashion industry, and although they may be able to provide designers with management and organisational support, they are unlikely to know how to access retailers, important trade fairs or manufacturers. For instance, while Investor 3 helped to manage the company, he did not know how to ‘sell’ the brand.

Strategic investments

Strategic investment typically involves equity investors, business angels or venture capitalists who share ownership with the designer, with the aim of generating a decent profit. In addition to cash flow assistance, these investors also provide management and expertise that help advance the fashion label. Seven of the designers interviewed had strategic investors in their business. All the strategic investors interviewed were involved in the management structure of the company, instead of simply providing cash to the designer.

Venture capitalists look for companies with at least the potential for very high growth. Fashion brands were not traditionally considered by these investors: they are seen as high risk, and not sufficiently profitable. This perception has been changing in the last few years, with some investors adding fashion brands to their portfolios.

Debt finance arrangements

By contrast, debt finance providers are usually not involved in a designer’s business decisions and are unlikely to provide management or business advice. Debt financing is usually generated through banks or insurance companies, and is mostly used by Solo, Designer with Partner and Creative Partnership designers, usually in the early stages of the brand. However we also found examples of manufacturers and other suppliers providing short-term debt funding by extending favourable supply terms.

Investor relationship issues

Investment is considered risky because the failure rate among start-up companies is high. Unless the designer has got his or her business ingredients absolutely right (‘signature’, stockist profile and support network), and this is a brand with clear potential, the business is unlikely to attract the investors it needs to grow.

“We have absolutely no idea how you go about getting investors.”

“Moreover there is a significant lack of information available to both designer and potential investor: designers have little understanding of external investment, of the investor’s role and of the reasons for giving up an equity stake. There is also

Table 3: Key points about investment – the designers' viewpoint

Awareness	Lack of awareness of what investment is and how to get it
Investment has a bad reputation	Every designer knows someone who has had a bad investment experience
Don't want interference from an investor	Designers reluctant to accept 'interference', despite acknowledged lack of strategic and management expertise
Reluctance	Reluctance to give up equity in the brand, as designers are emotionally attached to their 'name'
Greed	Perception that investors want too much equity
Too early	Some designers accept 'emotional investment' too early on, because it's easy

Table 4: Key points about investment – the investors' viewpoint

Risk	Perception that fashion is high risk
Valuation	Difficult to value a brand; no fixed assets
Under-estimated	Designers underestimate value of investment needed
Infrastructure	Investors will not invest in a single person without business infrastructure
Return on Investment	Investors are generally looking for a return over a 2-3 year period (but it needs closer to 7-8 years)

a lack of awareness about the funding options available." (Designer 18)

Similarly, investment in fashion requires particular skills in managing brand development and sales and marketing, as well as a good knowledge of the industry.

"If a designer comes to me with a good business manager, somebody that's helping him write his plan, manage his business, he's got my attention. Investors look at brands and PRs build brands as long as the product stands up, so strong value relationships with an investor and a PR are a good combination." (Investor 4)

Investors in our study claimed that designers do not want to give equity in return for investment, even if their company is worthless on paper. If investment promises to make or break the business, investors feel that the share balance should reflect both the investment and the shared responsibility of driving the business forward. Designers find this hard to accept. They tend to be emotionally unable to approach investment as a business opportunity. Designers see their business as very personal although some eventually recognise the need for investment to expand.

Investment needs to be longer-term than is typical with venture capital. Gucci's investments in Stella McCartney and Alexander McQueen suggest that it takes five years of financial support before companies return a profit. After that, the potential to scale up can be enormous, but fashion is not suitable for investors with a two to three-year exit strategy. Indeed that could de-stabilise the business. It needs a longer term engagement to benefit both parties.

Our interviews with investors showed that most private equity firms will not look at investments of less than £20 million. Otherwise they expect little return. Some investors may operate around £5-10 million, but interviewees thought that smaller capital is hardest to raise: it is harder to find £100,000 – £200,000 than several million pounds.

3.2 Designer relationships with manufacturers and value to business

Despite the importance of the relationship between designer and manufacturer, manufacturers are seen as outsiders by the designers' creative (and commercial) networks. Other designers, opinion formers, the press,

stylists, PR agents, sales agents and retailers rarely see manufacturers as partners. So, manufacturing is one of the first functions that a micro business is likely to delegate to a new full-time member of staff (either a studio manager or production manager). Designers generally view manufacturing relationships as problematic and tense, particularly those in micro businesses. Manufacturers and designers were critical of each other: there is a mismatch in expectations, lack of understanding of each other's business operations, workflow, and financial restrictions.

"Everybody wants their clothes made at the same time and so trying to accommodate

that and you know, grow the business organically the rest of the year, can be difficult to balance." (Company 2)

Moreover, many designers' production timings are currently polarised within the two-season model, compounding pressures within both the designers' and manufacturers' operations: the production window is extremely condensed, and capacity is stretched to the limit. This can result in some manufacturers dropping small orders, in quality issues and late delivery.

A list of the challenges presented by designers and manufacturers is given in the following tables:

Table 5: Key designer/manufacturer relationship challenges – the designers' viewpoint

On-time delivery	90 per cent of designers named this the biggest challenge in dealing with manufacturers. Two designers mentioned that they could rely on the timing of delivery of UK manufacturers
Perceived quality	One of the most cited problems. Designers who use manufacturing in several different countries, report problems of quality only with UK
High cost	UK perceived as high cost manufacturing; many designers prefer other European or Asian locations for manufacturing
Payment terms	Most designers are expected to pay cash on delivery (COD) which is difficult for their cash flow
Surcharges	Surcharges are made on small quantities which make clothes more expensive
Poor marketing	Designers find it hard to identify high quality local manufacturers One designer acknowledged that the Turkish and Italian manufacturers were better than UK manufacturers at marketing themselves to the UK
Disconnected from the fashion industry	Manufacturers seen as 'the outsiders' in the fashion industry. They are not in the network of the fashion designers, retailers and intermediaries
Lack of specialist skills	UK is seen to lack specialist skills, whereas designers report that other countries such as India, Italy and France have competitive advantage In the UK there is little evident training for staff (except one manufacturer interviewed) Hired staff often have poor spoken English language skills
Lack of investment on technology	Significant lack of investment in technology among UK manufacturers, who cite "lack of funding and cash" as the main reason Lack of high level skilled staff
Services	Manufacturers rarely offer grading, sourcing of buttons, trims etc, provision of distribution services
Supply of raw materials	Designers are generally responsible for supplying fabrics, trims and raw materials. They are generally ordered from Europe and delivered late, thus "playing havoc with dates of delivery" Designers have difficulty in sourcing fabric; because of this designers are required to attend trade fairs and to identify agents
Lack of loyalty	Manufacturers push designers' small orders to back of production queue if a large order comes in
Language	Can be a problem when dealing with overseas manufacturers
Small order values	Not cost effective. New designers cannot afford to refuse even very small orders

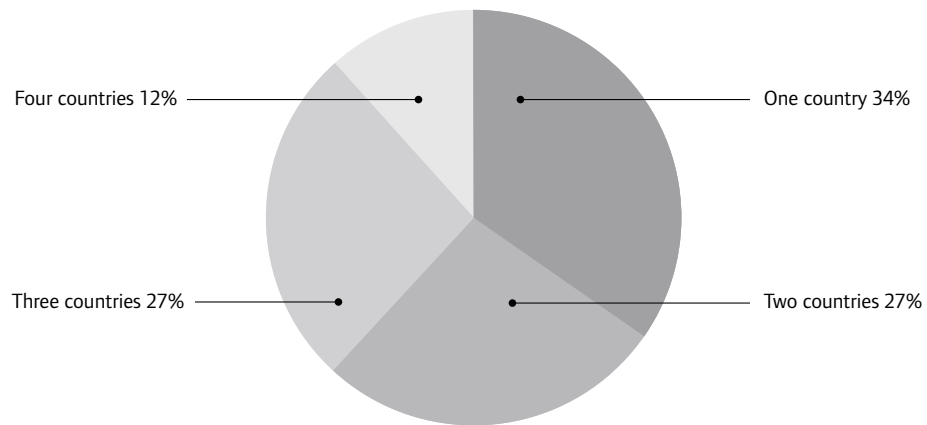
Sampling	Several manufacturers were critical of designers doing sampling in-house and basing wholesale prices on their estimated costings, before getting a manufacturer to confirm a price
Poor organisational skills	Designers sometimes do costings after they have been selling Designers often late delivering fabrics to the manufacturers, which impacts on ability to meet delivery deadlines
Disconnected from the fashion industry	Evident lack of structured network to bring together manufacturers and designers, although 50 per cent of manufacturers interviewed attended Fashion Expo and Fashion Capital hosted database, and noted benefits (new clients; understanding of designer fashion sector)
Lack of international opportunities	50 per cent of manufacturers interviewed said they would like to do work for designers from US, France as well as UK and could see opportunities, but lacked marketing capabilities
Overseas manufacturers	Can be communication problems Do not accept small orders Concerns expressed over IP
Payment	Manufacturer asks for payment in advance, or cash on delivery Surcharges imposed for small orders.
Lack of government support	Manufacturers reported lack of funding, and therefore inability to hire and train skilled staff and to invest in technology

On the other hand, manufacturers also noted difficulties and challenges in their sector:

Table 6: Key designer/manufacturer relationship challenges – the manufacturers' viewpoint

Designers have inflated expectations	Most designers not aware of how manufacturing process works, and have unreasonable expectations of the final product
Lack of knowledge	Designers lack necessary knowledge and technical background for constructing a garment Poor communication with manufacturer if designers not familiar with technical processes Last minute orders, with no clear specifications
Small order values	Not cost effective. New designers cannot afford to refuse even very small orders
Sampling	Several manufacturers were critical of designers doing sampling in-house and basing wholesale prices on their estimated costings, before getting a manufacturer to confirm a price
Poor organisational skills	Designers sometimes do costings after they have been selling Designers often late delivering fabrics to the manufacturers, which impacts on ability to meet delivery deadlines
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Figure 1: Internationalisation of Respondents' Manufacturing Base

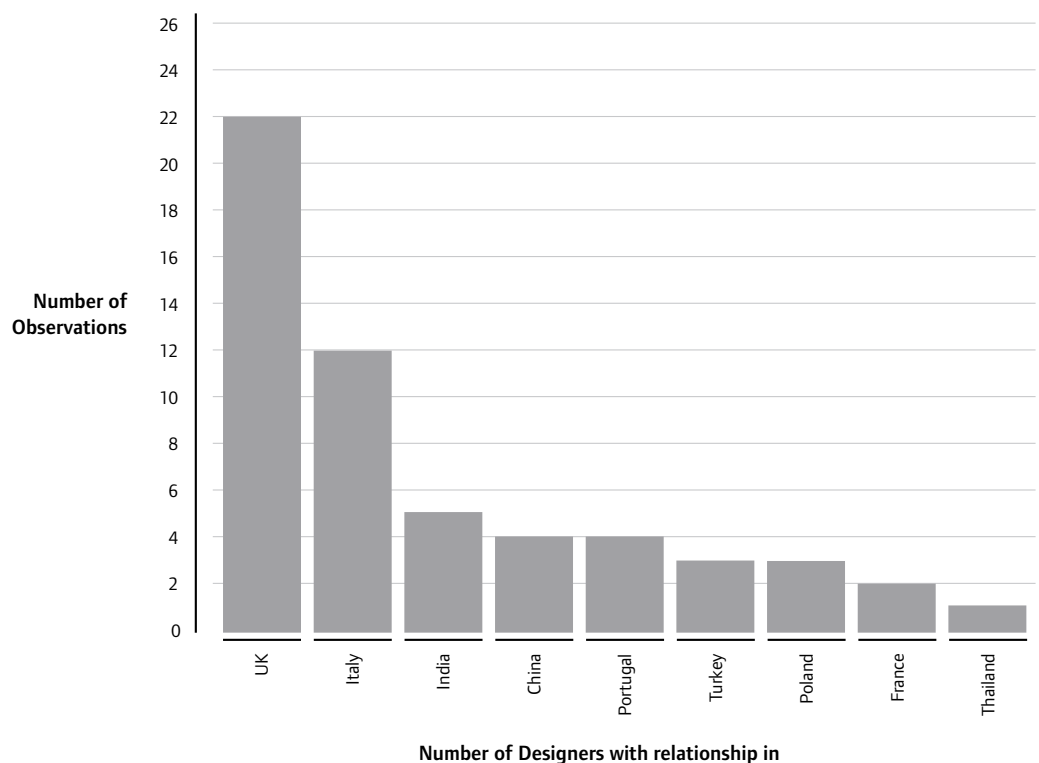


3.2.1 Internationalisation of manufacturing

Our research indicates that designer businesses have a highly internationalised manufacturing base: the majority of designers in our study manufacture in more than one country (see Figure 1). Strikingly, only 34 per cent of respondents have a manufacturing relationship with only one country; while close to 40 per cent have manufacturing relationships in more than three countries. The research indicates that this is a highly global industry, even for micro designer businesses.

Figure 2 shows the key countries where our interviewees had their products made. Twenty-two out of the 26 respondents worked with a UK manufacturer: such links tended towards sampling and small volume production. The UK manufacturers interviewed say they offer micro businesses an agile supply chain, and provide valuable (although costly) advisory support to designers who are not competent in communicating sampling/production instructions.

Figure 2: Key Countries of Manufacturing for Interviewed Designers



While many designers work with Chinese and Indian manufacturers, European countries such as Poland, Portugal and Turkey were as frequently cited as India and China taken together. This challenges the prevailing view that the latter countries are the dominant outsourcing destinations.

Creative Partnerships appear to be the least internationalised of the business categories, with their manufacturing concentrated in the UK, Italy and France. This pattern reflects their focus on low-volume, high-quality niche marketed product: respondents in this category emphasised their greater focus on the UK market, their reliance on London Fashion Week rather than the other international shows, and their concentration on the high-end UK niche markets as sales outlets. Neither the production volume nor the cost benefits would justify the investment necessary to develop manufacturer relationships in India, China or other high-volume manufacturing destinations.

3.3 Designer relationships with retail and new routes to market

The designer businesses covered by this study are predominantly wholesale businesses that generate revenues largely through domestic and international sales to key boutiques and stores.

Wholesale

Sales agent relationships are crucial in increasing stockists, particularly outside the

UK. Eighty-one per cent of the respondents indicated that their ready-to-wear is stocked both within and outside the UK. There is significant variation between business categories. The Designer and Business Partner and Partnership with Investor categories each have twice the number of stockists as other individual categories. These types of business tend to have greater management and organisational capabilities, and more intensive use of marketing channels (they often have their own store and sales agent). Greater market presence underpins the strong revenue data that we saw earlier.

Securing stockists early is a huge hurdle. Designer labels often hold back in the hope of being picked up by key stores (like Collette and Maria Louisa in Paris, or 10 Corso Como in Milan) which will quickly enhance the designer's credibility. Interviewees regarded the London and Milan trade fairs as unimportant for sales: Paris and New York are where orders are placed. Designers tend to sell through trade fairs, but London Fashion Week is squeezed between New York and Milan Fashion Weeks which means sales opportunities are being missed.

Once a new label is in a department store or boutique, the relationship requires open and constant communication: "the more monitoring and communication, the better the sales". New labels are usually carried for at least three seasons, with retailers who "want the new label to become a success, because if they do, then we do as well". Retailers are hungry for new, fresh and changing labels. This keeps

Table 7: Key points that designers make about retailers

Access is difficult	There are now so many trade fairs. There are over 150 private showrooms and trade fairs at Paris Fashion Week. With negligible sales in London
Selective	Designers are very 'choosy' about the early stores they sell to, as they begin to build their brand. This might be to the detriment of sales
Adjacencies	Designers are very concerned about what labels they hang alongside in-store
Support from retail	Emerging designers strongly value the sponsorship and licensing collaborations offered via High Street stores
Retail networks	Can offer designers new networks such as to manufacturer
Selling skills	Designers generally do not feel comfortable undertaking sales activities themselves
Payment terms	Are extremely challenging for a micro business Italians expect 90 days credit For the US you have to quote landed prices, which are more difficult to cost
SOR (sale or return)	Despite crippling cash-flow problems, designers still accept SOR terms in order to position their brand in key stores
E-tail	Steering Committee discussion groups highlighted the need for all designer businesses to develop their own e-tail stores, no matter how small initially

Table 8: Key points that retailers make about designers

Opinion formers matter	They listen to the honest opinions of key journalists and commentators
Supportive	They want to support emerging designers
Exclusivity	If they support emerging designers, many will expect exclusivity for a certain period of time
Test marketing	They will aim to stock the emerging designers for at least three seasons
Newness	They want designers to produce more collections every season
Delivery	They are very critical of designers' ability to delivery on-time
E-tail	Retail is very excited by online shopping

the retailer abreast of new fashion, and even helps them borrow from the identity of the new designer label: "We carry X designer, so we must be OK." Collaborative work between designers and retailers, such as store window promotions or special collections strengthen this relationship and support for the designer through publicity and press events. All retailers try to educate their customers about the brands they carry, by training their staff about their products and arranging personal appearances by designers, as well as 'talk-ins' to staff and trunk shows.

Breaking the two-season per year mould

The dominance of US retail in the sector became apparent throughout the interviews. The American buying pattern is affecting the small and medium sized designer businesses which are now developing up to five annual collections to meet the US appetite for new products. Their buying pattern is mirrored by many major department stores across the globe, and we found key boutiques are also starting to follow this trend. Buying 'pre-collection' is making news. Selfridges had its Halston Autumn/Winter 2008 pre-collection delivered in June 2008, and reported that it was selling out fast. On the first day individual customers were spending up to £4,500 to be the first to wear the re-launched label.⁷

Product innovation by adding more collections each year is a significant trend and market opportunity. However, research and development activity for each of the fashion calendar's two seasons is already extremely compacted for micro designer businesses. These businesses usually operate with small teams and they do not have the brand presence, infrastructure or cash flow to expand into more collections on their own. However, not embracing this opportunity means losing potential revenues, as well as not providing sufficient business to local manufacturers who

need a less compacted production workflow. In our study, none of the Creative Partnerships interviewed were doing pre-collections or more than two collections a year.

Consultancy and collaborations

An important source of revenue for micro and small designer business categories is consultancy – collaborative and creative projects between young and talented designer labels and established retail chains, such as H&M, New Look and Gap. TopShop and Debenhams were often quoted. Most designers viewed this as brand endorsement and crucial to their cash flow. Exceptionally, the retailer might sponsor the designer's fashion shows in return for developing a capsule collection for the retailer. Recent and well known collaborations include TopShop with labels including Richard Nicoll, Marios Schwab and Alice McCall; H&M and Stella McCartney; New Look and Giles; Mango and Osman Yousefzada, Jean Pierre Braganza and others. This type of collaboration has the advantage of introducing new and emerging designer labels to a fashion-conscious mass consumer market, while providing the retailer with much needed fashion edge and creative flair.

Flagship stores

"We love having our own store. It is us. It is our story, and customers come there to have fun, not just shop. It is our playground."
(Designer 1)

Thirty-eight percent of the designers who had their own flagship stores were small to medium size businesses. They reported benefits not only to brand profile but also to being in touch with their customers and understanding how they respond to the designs.

7. See www.vogue.com, 17 June 2008.

Online retail or e-tail

"We have our own shop on the website and it is a really fascinating thing to see what people like and what people go for...a buyer might buy one thing, the press might go for something completely different and actually a customer might go for something completely different..." (Company 19)

Online retailing is a relatively new and important direct sales route to reach the customer. Nineteen per cent of designers have their own online sales capabilities and the benefit of better margins; 52 per cent of them sell online, either directly or through a third party by wholesaling to an online retailer. Online retailers can access better customer information to gain a better understanding of what they want: several designers noted how they sold particular styles online that have been ignored by store buyers.

According to the Luxury Institute (a New York-based research firm) 99 per cent of the target customers of new fashion brands shop online. Many websites now cater to this market. Two retailers interviewed are about to launch their online stores: *"We will be able to better see what sells and what doesn't... and it is an area for huge growth, with huge potential."* Therefore, it is not just about getting more customers to buy more products, but also about capturing valuable information about their shopping habits and preferences. According to an online retailer, customers are open to new items that you cannot normally find in stores, especially if they are limited edition or only available from the online retailer. This is particularly true of young

labels not readily available across all stores and regions. The interest seems to be even higher if there has been press coverage of a designer without a flagship store, or without a department store presence.

Three of the designers we interviewed use online blogs, but most felt it was not relevant as a business development or sales and marketing tool, although it could be used to generate traffic to their websites and online stores. This remains a huge potential opportunity to develop brands and increase sales. But it appears considerably under-capitalised.

Trade fairs

"I think London is great for publicity or press exposure and introducing what you do to people, but I think in terms of selling it is mainly something that happens in Paris." (Designer 4)

One key finding relates to how the traditional two-season fashion sales calendar is changing. Our analysis indicates that international stores spend 60-80 per cent of their budget ahead of attending trade fairs; this pattern is now being mirrored by some leading independent boutiques. As we have seen, this has led to pre-seasonal collections becoming more common, with buyers often expecting designers to produce five new collections a year. While the typical trade fair cannot accommodate so many collections, they remain one of the most established and accepted ways to sell in the fashion industry: every fashion capital has one and they offer important access to buyers and the press.

Figure 3: Trade fairs used by respondents

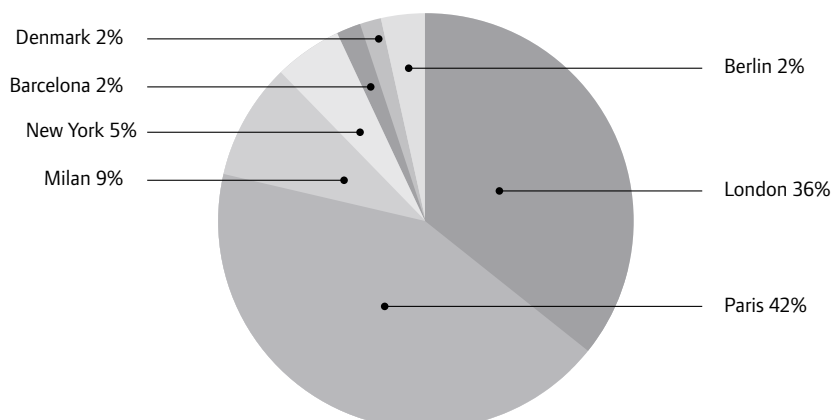


Figure 3 shows that the key trade fairs for designers are London, Paris, Milan and New York. Only one of the respondents in our sample does not use any trade fairs and 78 per cent said Paris and London were the most important, with Paris seen as the place to sell: *“Paris is for selling, London is for press”*, was the view of designers, a statement supported by the main retailers and buyers.

Our study reveals several reasons why sales are higher in Paris.⁸ All the big international retailers go to Paris. Buyers typically decide to purchase in Paris after taking time to view all the collections in New York, London and Milan. A women’s wear buyer suggested that London is usually where *“the latest trend and talent is showcased”*, where the buyers can see next season’s trends, before flying to Paris to buy according to the trends showcased in London.

So, while London is not seen as a “place to sell”, it is very influential in introducing designers, setting the fashion trends, and introducing new ideas and styles to the fashion industry. Thirty-nine per cent of businesses interviewed hold fashion shows during London Fashion Week; these are all micro or small design businesses. London can be pivotal in building emerging designer brands and introducing their collections to key opinion formers and press, however there are also fashion designers who prefer to show in their own showrooms and not at the main exhibition.

They may not always be seen in the press, but they have built strong businesses.

3.4 Designer relationships with intermediaries

Intermediaries such as PR agents, licensing agents, sales agents and distributors are integral to most designer businesses, particularly in communicating the brand to final customers and securing access to the retailers. Our data shows use of a reasonable range of marketing channels (see Figure 4), though blogging is underdeveloped and the high frequency of website use is undercut by the rudimentary character of many of these sites.

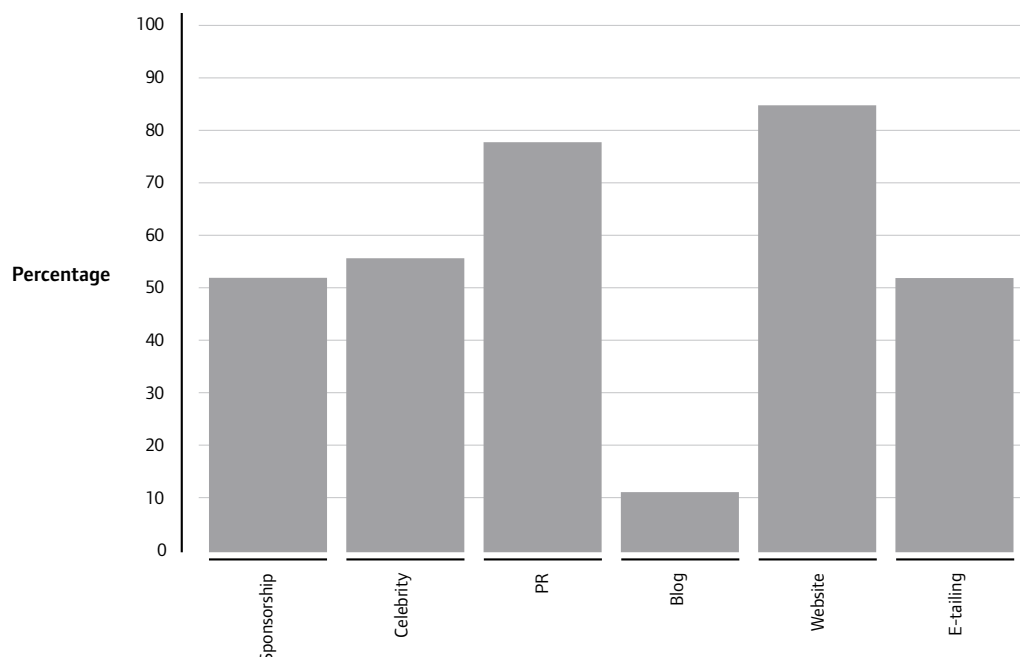
Three main issues in relationships with intermediaries emerge from the research.

First, the importance of building a story – a strategic brand identity – around a label guides the use of intermediaries. Designers often think only of making beautiful products, but intermediaries argue that a consistent and relevant story is the first step in building the brand and securing consumer receptiveness.

Second, hiring a PR or communications company is not always effective for sales during the early days. Several leading PR agencies pointed out that stories they placed

8. Based on evidence from and interviews with buyers from key UK department stores.

Figure 4: Marketing strategy used: overall



in the press could not translate into sales if the product was not available in the stores. Our data points to the need to prioritise sales, using either an online or retailer presence to maximise press coverage.

"I think it is a real mistake when PR is the first thing you invest in with brands and especially with new designer brands... If they concentrate on production, on delivery, and nurturing relationships with retailers, once they have got those three things accomplished, then they are in a much better position to be able to take advantage of the benefits that PR brings." (PR Agent 2)

Third, the right 'fit' between designer and intermediary is important. Designers usually rely on word-of-mouth or personal recommendations to choose intermediaries, but these relationships should be carefully researched:

"We had a case where we had to stop working with a designer. It was just very wrong for us... They should do their homework before they approach us. We are not right for everyone." (PR Agent 3)

3.5 Designer relationships with other 'influencers' and value to business

Other 'influencers' – aesthetic service providers, opinion formers, network support groups and organisations – were not originally part of the research but their importance to designer businesses emerged in interviews: they connect designer businesses to new routes to market.

Aesthetic service providers, such as stylists, models and photographers, are key to gaining access to retailers and press and for the exchange of information. Stylists are particularly important for:

- Editorial work for fashion media.
- Editorial exposure/coverage of the designer label.
- Developing private client portfolios.
- Advertising campaigns and/or catalogues.
- Potential entry and access to retailers.

Evidence from this study illustrates the importance of close relationships between designers and stylists who have a high degree of autonomy and power in deciding which clothes will be exposed in editorial coverage. As one designer explained:

"A friend of ours, who works for MTV and all these musicians, got Beyoncé to carry our bag, and it was uncontrollable after that... We had to work day and night to meet the orders, and we were getting non-stop requests from our website." (Designer 12)

Another designer says:

"Patty Wilson, a stylist who works for Italian Vogue, used a lot of our pieces, and that was really helpful for our brand." (Designer 21)

A managing director notes:

"Many times the stylist would decide which brand to feature in an editorial, and of course, they are more likely to pick someone if they are friends with the designer, or if they know him well... Not always, but it happens a lot." (Designer 16)

Opinion formers are well-known and respected fashion authorities in the industry: editors, fashion critics or writers who set the tone for trends, identify the latest designer, or indicate up-and-coming young brands.

In the UK, these figures include Sunday Times journalist Colin McDowell, Sarah Mower and the Daily Telegraph's Hilary Alexander. As one designer business put it:

"We would not be here today if it was not for people like Fashion Fringe, Colin McDowell, The Sunday Times, Sarah Mower, that ...definitely has been huge for our success." (Designer 15)

Opinion formers are seen as 'honest and truthful' by the retailers who rely on these influential authorities for information on upcoming designers and their collections. Designers agree: the 'honesty' of opinion formers is very helpful for the success of their business, especially when they lack resources for PR and advertising.

All these influencers are important storytellers, playing a key and independent role in building fashion brands and acting as brokers to help retail relationships.

Part 4: Key business categories in the UK's Designer Fashion Economy

"It's...very DIY in the UK, it's very much about people really having to have a passion for what they want to do, to kind of get it going and I think that's very admirable and it still exists in the UK, whereas it becomes much more corporate in Italy or America...and Paris even; it is much more about a brand and selling, whereas here it's about a good idea, hopefully it is still about that." (Designer 1)

"There is nothing that can train you for the (whole business operation) experience." (Designer 24)

Throughout our research, we found that designer fashion businesses follow an intuitive approach to their structure and management practices, resulting in some highly individual and non-conformist ways of doing business. The needs of the business often change over time, during which they develop different

relationships with retailers, manufacturers, intermediaries and investors. We were, however, able to identify seven different business categories of designer fashion business. Different categories occur more frequently at specific scales of operation. As enterprises reach higher stages of growth and development, they often change as a means of overcoming challenges and barriers to growth. So a business that was once a Creative Partnership or small Solo enterprise might evolve into a formal partnership with a specific manufacturer or investor. This section presents our typology of designer businesses and an analysis of the advantages and challenges that characterise each of them.

Further research would be valuable in exploring how (or indeed if) any of these businesses prioritise the drive for competitiveness, innovation and growth.

Figure 5: Designer Fashion Economy Respondents' Composition

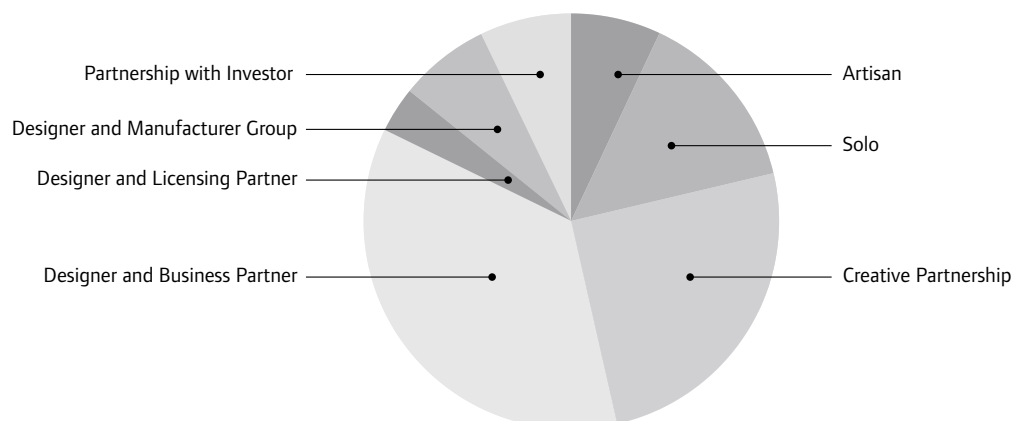


Table 9: CFE designer fashion business classifications (simplified)

Classification	Annual turnover
Superbrand	Up to £2 billion plus p.a.
Designer brand	Up to £1 billion p.a.
Large	Up to £249 million p.a.
Medium	Up to £8 million p.a.
Small	Up to £2 million p.a.
Micro (including start-up)	Up to £250k p.a.

4.1 Business categories

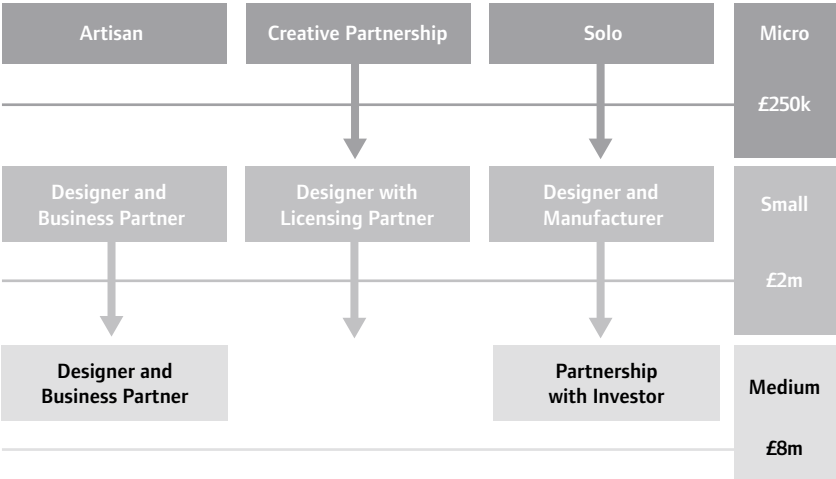
The seven business categories we identified through the research are:

- 1. Artisan
- 2. Creative Partnership
- 3. Solo
- 4. Designer and Business Partner
- 5. Designer and Licensing Partner
- 6. Designer and Manufacturer
- 7. Partnership with Investor

Please refer to Appendix 6 for detailed case studies of each business category. Figure 5 indicates the number of businesses in the sample operating according to each category.

These categories are typically present at different stages of a business’s growth, as illustrated in Figure 6. Following the Centre for Fashion Enterprise’s (CFE) business scale classifications (see Table 2), we also break them down between micro, small and medium businesses (see Appendix 5). A micro business is defined as one with a turnover below £250,000; a small business from £250,000-£2 million; and a medium business between £2 and £8 million. These business scale classifications have been made by CFE using businesses’ cash flow data from Companies House, financial statistics from the national press and dialogue with investors. Our purpose in such categorisation and classification is to identify where financial intervention is most needed to stimulate growth and capitalise opportunity. More detailed descriptions of each classification can be found in Appendices 4 and 5.

Figure 6: Designer Fashion Business Category Progression



4.2 Micro business categories

Micro businesses fall into three main categories: Solo, Artisan and Creative Partnerships. The Artisan's main motivation is aesthetic rather than commercial; the Creative Partnership involves two creative people choosing to set up a business together; and the Solo designer is focused on growth, typically employing only one other person. We describe the specific features of individual categories later in this section.

In establishing themselves, micro businesses face significant marketing overheads disproportionate to their early turnover. In their first few seasons, they might be able to benefit from the sponsorship or licensing platforms that High Street stores and well known brands are increasingly extending to support new designers. But once they have outgrown their novelty, this support is likely to disappear. They need then to develop independent strength as a brand.

Typical features of micro businesses mentioned by respondents include:

- Use of freelance staff and student interns to cover staffing gaps.
- Cash poverty: 25 per cent had revenue streams from consultancy (all of these were Creative Partnerships).
- Lack of resources to register names and trademarks (in the UK or globally); lack of resources to contest a copyright infringement.
- Majority of micro business designers teach fashion design in colleges to supplement their incomes.

Some Artisan businesses in our sample have chosen to trade for ten years or more without increasing in size. Nonetheless, where micro designer businesses try to grow into a small business, they face common issues, as follows.

Manufacturing

- Cash problems: Initial success with key retailers leads to accelerating sales, which in turn makes it necessary to increase production. However, poor communications, planning and funding often mean that the cash flow from sales doesn't match the costs of production.

- Low margins: Volumes required by micro and small businesses are significantly lower than those of larger companies. Micro businesses often also lack negotiation and 'design handover' skills. As a result, they are charged more by manufacturers.
- Limited knowhow: They lack the scale, experience, contacts and capital necessary to contract high quality manufacturers overseas, let alone establish their own factories in cheap labour locations.
- Late payments: Respondents cite continual problems with late payments and quality.

Investment

- Emotional investors: Investors in micro businesses tend to be 'emotional' ('family, friends or fools' with limited resources who want to 'get into' fashion). They generally do not appreciate the time and capital required for a fashion business to grow, become established and generate profit (see Section 5.1).
- Control fears: Micro designers are reluctant to consider other external investors. Both Artisan and many Solo designers fear that investors will take over their businesses, leaving them with little control over their label.

Retail

- Six month cycle: The very rapid product development cycle exerts a key pressure on micro businesses. The need to introduce new designs and products every six months compounds their operational problems: they have little time to identify new reliable manufacturers, solve cash flow issues, or capture economies of scale. Moreover, each collection is make-or-break for a non-established brand.
- Catwalk costs: All stage catwalk shows at an average cost of £40,000 (including prototype samples) twice a year. This has to be funded from an annual turnover of under £250,000, an exceptional marketing spend that comes straight off their bottom line, unless sponsorship is secured.
- Growing demands: Compounding this problem is the growing propensity for major

Table 10: Common features of micro businesses – and differences between them

Relationships with:	Key features	Key challenges
Manufacturers	<p>Poor experience of manufacturing</p> <p>Poor communication and briefing to manufacturers leads to poor understanding</p>	<p>Late deliveries</p> <p>Insufficient experience and communication problems</p> <p>High costs as designers have to pay surcharges to get small volumes produced</p> <p>Dependent on one or very few manufacturers</p> <p>Paying for production before the retailers pay</p>
Investors	<p>Solo designers and Artisans are reluctant to consider any investment or prefer investment from family and friends</p> <p>However, Solo designers can sometimes give a large stake in their businesses for a relatively small sum</p> <p>Creative Partnerships are more receptive to other partners and investors to grow their brand</p>	<p>Businesses not attractive to corporate or venture investors due to risks of inexperienced business and difficulty in valuing the brand</p>
Retailers	<p>They are all attractive to top retailers looking for new names</p> <p>Artisans tend to have limited stockists, but often inspire copycats</p> <p>Solo designers are less selective, as they want early growth</p> <p>Creative Partnerships often rely on sales agents</p>	<p>Buyers not coming to London to buy while many designers at this stage cannot afford to show in Paris</p> <p>Artisans are wary of consultancy, as they see it devaluing the brand</p> <p>They also lack experience and capital to control their deliveries to the stores. It is often luck rather than judgement if it works well</p> <p>Solo designers are unsure about how to manage retailer relationships or how to educate them about their products</p>
Opinion formers	<p>Artisans are the most inspirational for press and opinion formers</p> <p>Creative Partnerships have well developed relationships with intermediaries</p> <p>Solo designers hope to get star press treatment as emerging names, particularly in London</p>	<p>Solo and Artisan designers can be focused on press and events to attract the press; but this does not always translate into sales growth</p> <p>Creative Partnerships are not as good at networking</p>
PR	<p>Press interested in fresh talent and looking for unique angle</p> <p>Artisans and Solo designers generally have their own PR person, whereas Creative Partnerships rely more on agencies</p>	<p>However, PR companies warn that a designer should concentrate on their product and getting stockists before they take on PR</p>
Sales agents	<p>Creative Partnerships and Solo designers aim to have a sales agent in the UK, whereas Artisans don't tend to use sales agents</p>	<p>Where agencies are used, they charge 10-15 per cent of sales, which designers must reflect in their costing strategies if they are to make money</p>
Stylists	<p>Solo and Artisan Designers are generally connected with a particular stylist at this stage, whereas Creative Partnerships are not</p> <p>Solo and Artisan Designers are attractive to stylists who are interested in working with unique talents</p>	<p>Artisans find it difficult to entrust their collection to a sales agent</p> <p>Creative Partnerships and Solo designers may have difficulty gaining access to the right stylist or network because of their self-sufficiency</p>

international buyers to demand up to five collections per annum.

We now consider in more detail the characteristics of the Artisan, Solo and Creative Partnership fashion design business.

4.2.1 Artisan

“If it is just creativity expressed, it is not really a business, it is more artisan and artistic. It can influence the fashion industry, the media, the press with its notoriety but very rarely becomes a business.” (Designer 2)

The defining feature of Artisan businesses is their concern with intrinsic goals rather than financial or market imperatives. Artisan values tend to be artistic and highly personal, rather than commercial. Artisan fashion designers develop clothes for their aesthetic or emotional attraction. They build a strong following and are well respected amongst their peers but are very selective in their business and consumer relationships.

Artisan designers can be very influential opinion formers and are therefore important to the fashion industry as a whole. Their specific contribution is in their individual talent and originality, which fashion stylists and magazines across the world rely on as a source of new and fresh ideas. These are the designers that provide the biggest inspiration for other design labels, retail copycats and the press.

“They (retailers and press) need this kind of young energy that the designers can produce, like new ideas all the time, just like that. The industry really needs it to be inspired, otherwise it is just commerce.” (Designer 1)

Artisan designers can still be ‘business savvy’: two of the Artisan designers in our sample data had management degrees. They are more likely than other businesses to have registered their trademark in their areas of operation, if they have sufficient resources. They are wary of entrusting their collection to sales agents, preferring strong personal relationships with a select few retailers, whom they trust to represent their brand well to target their core customers. The designer may have a dedicated small team, but might take lead responsibility for creativity, sales and marketing, human resources, production and other key parts of the process.

The Artisan designers we interviewed were less likely than other business categories to develop relationships with investors, fearing loss of control. They worried about unethical behaviour by investors, whom they believed would not respect their aspirations; they were aware of fellow designers’ past bad experiences. All our interviewees had refused external investors looking for fresh talent, because they did not trust them.

Artisan designers will become consultants if it fits their own profile and artistic vision. But they are afraid of jeopardising their credibility, as one of our interviewees stated: *“you dilute the brand before it is even strong, so it’s like killing it before it actually exists”*. It is very rare for an Artisan designer to enter into consultancy for purely financial reasons.

4.2.2 Creative Partnership

Creative Partnerships involve two creative people choosing to set up a business together, often immediately after graduation, or through workplace contacts. Creative Partnership designers claimed in our interviews that this experience made them much more receptive to further collaborations: these partnerships progress steadily at the micro business level and often attract a business, manufacturer or investor partner, allowing them to move quickly to the small business stage.

Creative Partnerships tend to focus on commercially viable creative outputs, rather than the more purely artistic endeavours of the Artisan. They have a well developed sense of consultancy and its value to the business; they also rely on sponsorship. Their strong relationships with intermediaries also allow for effective PR and sales activities.

4.2.3 Solo

The goal of the Solo business category is growth. Whereas the Artisan designer is driven by artistic integrity and creative vision, the Solo designer aims to establish their brand and make the transition from micro to small size business.

Solo designers may only employ one other person (often as an assistant or studio manager). All other functions are performed by freelancers. Solo designers are generally highly motivated individuals who build relationships and drive the business forward with great energy. However their infrastructure is generally too immature to support the growth and ambitions of the designer-owner. The Solo designers interviewed had often had a previous career, a previous Creative Partnership, or a

licensing tie-up that had fallen apart for various reasons. Solo designers that successfully move on from the micro-to-small business size tended to acquire a business partner.

Solo designers talk in terms of long-term budgeting, continual growth and focus on building the range. They are in business to make a profit. They are aware of the future need for investors who will be expecting a return. Solo designers want to have a successful fashion business and are less selective than Artisans in their investors or partners. This can have a negative impact on the value of the brand. It can also lead them to give a large stake in their business for a relatively small amount of money. Moreover, they do not know how to develop relationships with retailers, or how to teach them about their company's brand and design ethos.

4.3 Small business categories

The small businesses in our study mainly adopted one of three categories: Designer with Business Partner, Designer with Licensing Partner and Designer and Manufacturer. They tend to employ more than four full-time members of staff and at least four student interns. In our sample, 42 per cent of the small companies had previously been Solo businesses and 42 per cent had been Creative Partnerships, all of them having teamed up with business, licensing or manufacturing partners to progress to the next level. However, there were exceptions: we saw some former micro Solo or Creative Partnership businesses that had grown without adopting one of these categories: these two examples grew slowly and stalled at an annual turnover of around £1 million.

Small business retail relationships

- Show through an agent or private showroom in London.
- Work with one to three sales agents, show at trade fairs in Paris and perhaps New York; less than half stage a catwalk show in London.
- Are involved in small-scale product endorsements or consultancies.

- Design for two seasons per year (however, 25 per cent also produce a cruise or a pre-collection each season).
- 29 per cent have their own on-line store; 47 per cent have their own shop – to show full collection concept and get customer feedback, rather than for profit.
- 90 per cent of small businesses had registered their trademark in the UK and 15 per cent had registered it in more than three regions internationally.

Investment and management

- Small stage businesses are building their capacity, capabilities, profile and order-book: this requires capital and diligent cash flow management.
- Still too small to attract capital investment and so they rely on banks. Likely to seek an investor when annual turnover rises above £500,000.
- Wary of giving away their autonomy.
- A third of small businesses were engaged in consultancies or had licensing agreements. Sixty per cent of those with consultancies also had licensing.
- All business categories were similarly inclined to consultancy and licensing. Intermediaries suggested that these opportunities depend on the perceived strength of the brand; hence brand development needs to be seen as part of business strategy to create new revenue streams and investments, and attract stockists and consumers.

Manufacturing

- Long-term partnerships with manufacturers and licensors are a source of value, expertise and support.
- The Designer and Business Partner category involves low value manufacturing relationships and problems maintaining consistency in quality. Licensing and manufacturer partnerships are a way of tackling the challenging problem of cash flow, ensuring that businesses are not forced to reduce production because of delays in payment by retailers.

4.3.1 Designer and Business Partner

In this category – found at both the small and medium stages of business development – designers have a business partner at the small stage or employ a managing director at the medium stage. There are several key characteristics of this business category:

- Strong brand identity and clearly articulated brand values.
- Long term and consistent value relationships with retail, finance, intermediaries and manufacturers.
- The designer is the face of the company, acting as a brand ambassador in press events, and establishing relationships with opinion formers and intermediaries. On the other hand, the partner focuses on the management and organisation of the venture.

Smaller designer businesses knew they needed capital investment but many did not know how to access investors. Our research indicates that while investors are interested in fashion design enterprises, given their promise of growth and strong brand value, they may be more reluctant to invest because fashion businesses often can't provide high returns quickly.

Manufacturer relationships tend to be problematic, with problems in maintaining consistency in quality of production and long term relationships. Designers particularly cite difficulties with delivery and quality, but the evidence from our research is that they are constantly seeking to improve these relationships and reconsider their manufacturing support. The costs of sampling grow because small business collections have more styles than micro business collections. Increased orders put increased pressure on cash-flow to fund production.

Companies in the Designer and Business Partner category tend to have good relationships with retailers. They usually work through sales agents rather than in-house sales teams, and they sell at international trade fairs. The more established brands will have developed a strong and consistent signature style and design aesthetic. This helps them attract a good level of press support and coverage, giving them media visibility in their target market and allowing them to grow each season. The disadvantage is that success can lead to over-distribution, so growth has to be carefully managed. Exclusivity is a selling point:

high-end designers don't want to be stocked in more than one or two A-list stores or boutiques in any city.

4.3.2 Designer and Licensing Partner

This business category arises when a designer or design duo is spotted by a manufacturing group or 'White Knight' and then enters into a contractual agreement with the company. This category often involves an Italian licensing partner, so there may be cross-cultural and language issues. Designers are typically paid 10 per cent of gross turnover, although anecdotal evidence suggests that designers who are more confident of their market value can negotiate up to 15 per cent.

The advantage for the designer is that the licence partner company provides access to extensive manufacturing capabilities, quality control support, assistance in sourcing and buying fabrics, and managing and funding all sampling and production. Key buyers, who may not buy from an emerging designer for fear of non-delivery or poor manufacturing quality, will confidently buy a designer brand backed by the credibility of the licence partner company. Designers with a strong creative textile or print element to their work benefit by avoiding high print development costs and concurrent barriers to embroidery and hand-work expertise. The designers have greater freedom to concentrate on creative activities.

"We have everything at our disposal...it's a dream thing." (Designer 9)

These designers generally retain their own PR agent to keep control over their brand representation. They are thus better able to establish their brand and their own names in the industry and among the general public. This also allows future expansion outside of the licensing business category or the opportunity to negotiate a better deal with their licensing partner.

Sales and distribution is managed by the licensing group, which enjoys well established contacts with key international retailers, and understands the price, delivery and quality obligations that the retailer expects. The licence partner will also arrange shipping, insurance, import and export regulatory requirements and packing. These are all burdens for other types of small designer business.

A draw-back of this category is that the designer earns less than 15 per cent of the

Table 11: Key features and challenges of Designer and Business Partner category

Relationships with:	Key features	Key challenges
Manufacturers	<p>Low value relationship; difficult to maintain consistency and long-term relationships with manufacturers</p> <p>Mainly UK, but also overseas which can add a new positive niche dimension and opportunity to the business</p>	<p>Designers who cite difficulties (delivery, quality) might change manufacturers often and lack consistency</p> <p>Price more difficult to control</p> <p>Product development/sampling costs as collection grows in number of styles</p> <p>Communications if manufacturing overseas</p> <p>Squeeze on cash flow to be able to pay manufacturers in a timely manner</p>
Investors	<p>The designer/business partner category seeks capital investment at this stage but does not know how to go about it</p> <p>They do not have the same need for management expertise as the other two categories in this category</p>	<p>Designers do not understand investment or how to access it</p> <p>Emotional investors might seek an exit before sustainability has been established</p> <p>Some investors have dropped out at early stage of the venture's development as the monies have needed to be spent more quickly than they had anticipated</p> <p>Commercial investors more likely to be interested in this category but the turnover still seen as too low</p>
Retailers	<p>Established value relationships and good communication are key</p> <p>More likely to have their own store by this stage (40 per cent in study do) or e-shop</p> <p>Reap benefits of higher revenues from own-store and e-sales to cash flow</p>	<p>Sales agents are important especially at the beginning of the business</p> <p>Routes to market can be difficult to maximise</p> <p>Tend to sell through trade fairs</p>
Opinion formers	Designers develop close relationship with opinion formers as business progresses; form strong network to build credibility with fashion and business communities	No longer new
PR	<p>Niche PR company, relies on in-house events; designer is well connected; has good relationship with key intermediaries</p> <p>More likely to do a fashion show in London</p>	When label is no longer new, it is no longer news; press do not feature the label as heavily, as looking for next wave of young talent or for larger businesses that place advertising
Sales agents	70 per cent have an agent, who sells from own showroom; 30 per cent have in-house sales at exhibitions	Internationalising sales
Stylists	Works as a team with stylist, who not only acts as an intermediary between retailer and designer, but also source of branding ideas	Could become too dependent, and not all stylists are so influential

total sales turnover, and often as little as a tenth. If sales become really large and profitable, they would not benefit as much as the other two small business categories. A further draw-back is that licensing partners are unlikely to put capital into the small designer business; at the same time, they are very controlling of client relationships, meaning that the designers may not be able to form their

own relationships with retailers and customers. So the designer may lose first-hand knowledge of the market and market trends.

Designers in our sample who had been through a licensing partnership as small businesses and moved to an alternative business category when they grew further, pointed out that delivery times were variable and costs were on

Table 12: Key features and challenges of Designer and Licensing Partner categories

Relationships with:	Key features	Key challenges
Manufacturers	<p>High value and long term relationship</p> <p>Tackles the most challenging issue of cash flow since licensing company produces all sampling, production and fabric buying</p> <p>Fast growth (from a micro to small operation within five years)</p> <p>Advice and assistance</p>	<p>Can restrict the development of the business if it needs to diversify or wants to move to different product types, especially if the manufacturer is niche, or specialist</p> <p>Travel and communication difficulties, if manufacturer located abroad</p> <p>IP protection is necessary: manufacturers can abuse the relationship and use designs/processes on other products</p>
Investors	Investor unlikely to invest capital	Designer may want to get out of the tie-up as their business and product needs grow
Retailers	Good value relationships as the business category ensures on-time delivery, with no delays. Develop reputation for reliability with the retailer	<p>Danger of IP infringement by licensor/manufacturer if abroad as designer may not be able to protect their trademark in the domain where licensor/manufacturers are located</p> <p>Tend not to have own store</p>
Opinion formers	Can have a following by now and Licensing Agent likely to have press connections	Less of a 'new name' so can be less attractive to press
PR	Own PR	Paying for international PR which is now needed, may be a challenge
Sales agents	Usually in the UK although licensor may have sales set-up	Needs help with international sales, but licensor may have international distribution
Stylists	Designers tend to be innovative and more likely to find stylists who will draw out their perceived specialness from the collection	Budgetary constraints to hire in

the high side. Having moved on to another business category, they felt they now had much more control over the costing side of the garments. Interviewees also claimed that they were now able to control sales and ensure that their collection was represented correctly in the store, instead of selling individual styles in volume through less respected and less fashion-forward stores.

4.3.3 Designer and Manufacturer

This business category is a partnership in which the designer business enters a contractual agreement with a single manufacturer. In our sample, the manufacturer may take a stake in the business of up to 20 per cent. An advantage of this category is that it allows the designers to reduce cash-flow uncertainty and increase predictability of delivery. Few manufacturers can afford to offer credit terms. Most demand cash on delivery, while micro and small businesses generally have inadequate capital in the early stages of their venture. Typically the manufacturing partner will bear

all the sampling, raw material and production costs, and will often offer preferential payment terms, including invoicing, once payment from the retailer has been received.

The restrictiveness of this category becomes more evident as the venture grows and the designer wants to expand into different products with different textiles. Manufacturers in these partnerships usually specialise in a particular product category thus limiting the designer to a niche label. One company, for example, partnered with a silk printing specialist, and another partnered with a very high quality Scottish cashmere manufacturer. Particularly businesses that cross the £2 million a year barrier into medium sized enterprise tend to diversify their product range; they are restricted if they are tied to a single specialist manufacturer. Moreover, manufacturers in this category typically do not invest capital in the designer's business; as that business grows, it must look elsewhere for investment.

Table 13: Key features and challenges of Designer and Manufacturer category

Relationships with:	Key features	Key challenges
Manufacturers	<p>High value and long term relationship with a manufacturer</p> <p>Tackles the most challenging issue of cash flow with preferential payment terms with manufacturer</p> <p>Fast growth (from a micro to small operation within five years)</p> <p>Free consulting on pattern cutting etc.</p> <p>Reliability and open communication, especially if previous relationship existed</p>	<p>Restricts the development of the business, especially if the manufacturer is niche, specialist</p> <p>Travel and communication difficulties, if manufacturer located abroad</p> <p>No help with business and management of the label</p> <p>IP protection is necessary: manufacturers can abuse the relationship and use designs/processes on other products</p>
Investors	Usually the manufacturer is also the investor, with up to a 20 per cent stake in the business	No help on financials, cash flow, business and management of the company
Retailers	<p>Good value relationships as the business category ensures on time delivery, with no delays</p> <p>Reputation for being reliable with the retailer tie-up gives confidence to buyers to place orders</p>	<p>IP infringement by manufacturers selling locally where manufacturers are located</p> <p>Tend not to have own store with this business category</p>
Opinion formers	Can have a following by now so relies on good performance and confidence	Less of a 'new name' so can be less attractive to press
PR	Own PR	Paying for international PR which is now needed
Sales agents	Usually have in UK	Need international sales help
Stylists	Tend to be innovative and more likely to want to find these relationships for specialness in the perception of their work	Budgetary constraints to hire, so relationship and contacts needed more by now

Designer and Manufacturer businesses tend to have good value relationships with retailers because it can ensure on-time delivery. A reputation for reliability and the knowledge that a manufacturer is involved gives buyers the confidence to place orders.

4.4 Medium size business categories

The medium size businesses in our study – those that have progressed beyond £2 million per annum turnover – were between 12 and 16 years old and had 13 to 15 employees. They adopted one of two business categories: Designer and Business Partner (already discussed under 4.3.1) and Partnership with Investor.

The Designer and Business Partner category often involved long term connections between the partners. However, increasing size and maturity may involve multiple changes of

business category: one designer business in our sample, currently operating under the Partnership with Investor category, had previously been organised as a Solo and then Designer with Business Partner as a micro business, and then with a licensing partner as a small enterprise.

The designer is supported by a team that typically includes a business manager, production manager, sales manager, financial manager, studio manager and designer's assistant. Company policy will usually support training.

There is evidence of careful planning, a strong design integrity and aesthetic, and profitability. Retailers are confident when buying from these businesses and express less concern about risk, as they are more likely to get full margin sales. Until designers have reached this size, they may not have a fully developed 'brand'. Having become a brand – as with several businesses in our sample – may justify the department store

Table 14: Key features and challenges of Designer with Investor category

Relationships with:	Key features	Key challenges
Manufacturers	<p>Possibly provided by the investor's group if it is already in fashion sector</p> <p>High quality, on-time delivery. Samples are usually made in Italy</p> <p>Constant feedback and collaborative work between designers and manufacturers</p>	<p>The garments may become 'commercialised' and lose uniqueness</p>
Investors	<p>Investor will want to drive a return on investment</p>	<p>High percentage of the business controlled by investor</p> <p>Potential problems in the long term if an investor wants a quick return on investment</p> <p>Restrictive for the designer if investor's team control the brand</p>
Retailers	<p>Distributed through the network of the investor's group</p> <p>Potential for fast growth and expansion</p> <p>Immediate on-line presence possibility via growing number of high-end boutiques with e-tail routes to market</p> <p>Own-stores</p> <p>Access to e-tailing expertise</p>	<p>Designers are cut off from the clientele and get little direct feedback (e.g. Designer A never visited any of their stores, not even best selling stores)</p>
Opinion formers	<p>Very important and influential</p> <p>Strong backup from opinion formers, but it should be noted that the opinion formers were there from the start of the brand</p>	<p>Designer not as interesting if part of a big corporation</p>
PR	<p>May be provided by the investor's group</p> <p>Careful strategic brand planning and creating a story around the label</p> <p>Highly dependent and strong on PR</p>	<p>If the designer does not retain their own PR, their 'voice' may become diluted</p>
Sales agents	<p>Use of internal sales infrastructure</p> <p>May have international sales through a network of agents; able to break into new markets</p>	<p>Internal sales infrastructure may not appreciate the nuances of a designer label and not appreciate its special identity</p>
Stylists	<p>Strong emphasis on key and influential stylists, photographers and models in the fashion industry</p> <p>Help to strengthen the brand story and exposure</p> <p>Possible celebrity exposure</p>	<p>May be tension between who is valued by investor or designer</p>

having a dedicated section for the designer to increase profitability. These designers develop brand loyalty by staying true to themselves and expressing consistent brand values.

Trademark registration will be placed in all major markets. When designers first set up their businesses they cannot afford to register their trademark, but international customers

demand this reassurance before they will commit to ordering from the collection. Copyright infringement is taken very seriously by medium size businesses, even though enforcement is a long and costly process.

Without significant capital investment these businesses are unlikely to break the £8 million barrier and become large fashion businesses.

4.4.1 Partnership with Investor

This category involves an investor who has confidence in the designer's brand and its ability to grow sufficiently over a set time period, with adequate return on investment and an exit strategy after an agreed time. Such supported designers include Matthew Williamson, supported by the Icelandic Baugur Group and Stella McCartney by PPR Luxury Group (outside of this sample). These investors bring other benefits to a growing business, including access to high level management skills, distribution and manufacturing. It adds value to the investment when the investor is from the fashion industry, as benefits can include routes to global market. External investors can add value by providing the business direction for the company in a growth context.

Moreover, having an investor means access to sufficient capital to show abroad. An overseas show typically costs three times as much as a London fashion show but is more likely to attract the major buyers. Other advantages include the capital to maximise market penetration, as the main designer lines are very costly to produce and sell. Access to different fabrics and different construction techniques is also facilitated, supporting innovation in the sector.

Unfortunately, medium size designer fashion businesses are considered too small for traditional venture or corporate capital investment. They are thus a 'grey area' for

growth. Micro businesses can often find small grants (rarely more than £5,000) from local authorities, regional development agencies or other start-up support. Small designers can generally find capital through loans, family cash or earnings. Large businesses tend to have strong brands and are considered ready for investment. But medium-sized businesses have fewer options for sufficient capital injection to aid their growth.

The investors we interviewed typically expected returns within two or three years. Yet recent investments – such as PPR's (Gucci Group) investments in well-known UK designers – show that it can take five years to break even and seven or eight years to show a profitable return.

4.5 Comparing business categories

Each business category has a complex balance sheet of advantages and disadvantages. There are different possibilities and challenges at different scales of operation and business evolution – a summary assessment is inappropriate. However, we can look at how each meets two important criteria: durability and access to finance.

4.5.1 Durability and sustainability

Our research found that designers require an average of eight years to develop into mature

Figure 7: Average enterprise age in the sample

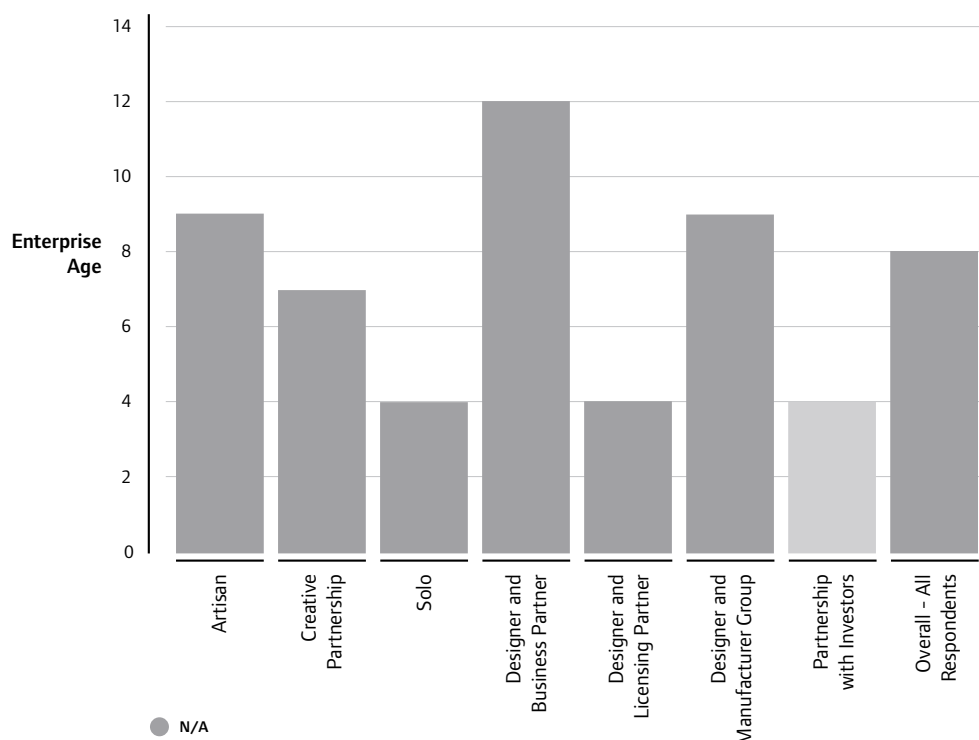
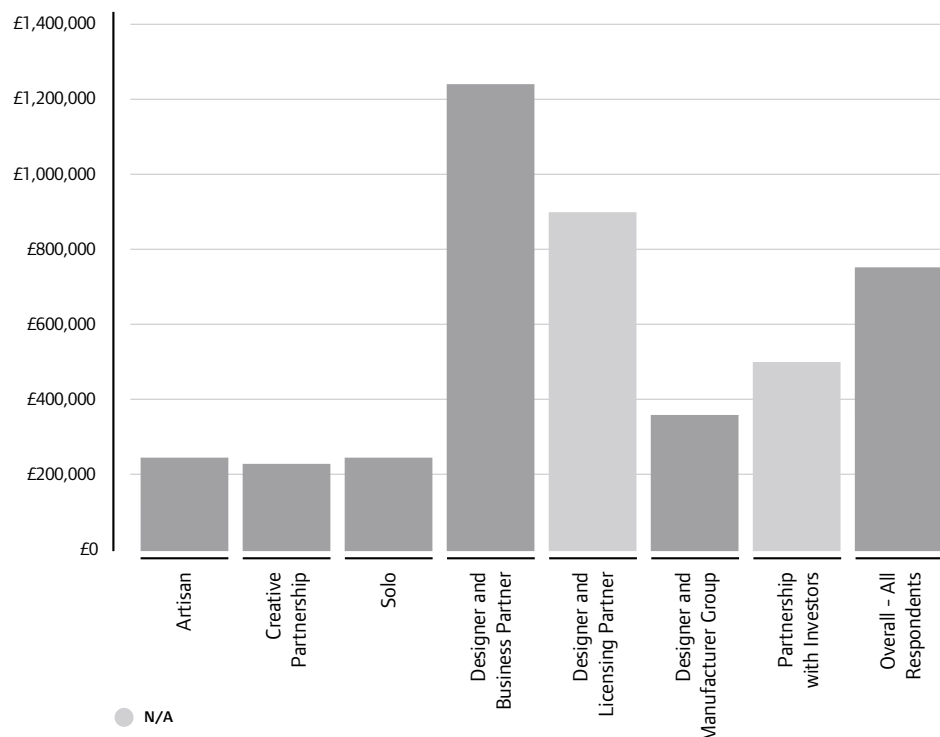


Figure 8: Average Revenue by Designer Business Category



9. Please note that 59% of the respondents refused to disclose their turnover figures.

businesses. The most durable enterprise forms – and the ones likely to cross this critical threshold – appear to be the Design and Business Partner and Creative Partnership categories, as shown in Figure 7. The relatively young age of the Solo category may suggest a lower survival rate.

If we combine average business age with data available on average revenues for each business category, we see that the Designer and Business Partner category is the most stable and successful revenue generator.⁹ Our interviews suggest that the key factor explaining this relative success is the increased availability of business development skills that a seasoned business partner brings on board. These include better cash flow management, stronger negotiation with manufacturers and distributors, and improved and more consistent strategy implementation. Moreover, this category has one of the more diverse bases of manufacturers, demonstrating a greater ability to manage complex relationships.

4.5.2 Accessing external finance

The study provided information on the funding channels used by designer businesses. As demonstrated in Figure 9 most investment came from ‘self-funding’ or ‘family’. In fact only five respondents employed what the entrepreneurial literature would classify

as ‘external funding’, from grants, private investors or VC funding. Possible explanations include an overall lack of awareness or a high barrier to entry for fashion entrepreneurs with lower levels of ‘business planning skills’.

4.5.3 Intellectual Property protection strategies

Given that we can find key barriers to growth in the intangible and informational assets of fashion businesses (see next section), trademark and copyright protection strategies are obvious indicators of the strengths and weaknesses of each business category. Seventy-eight per cent of the respondents use trademark protection (broken down by business category in Figure 10). Unsurprisingly, this rises to 100 per cent in the Designer and Licensing Group and Designer and Manufacturer categories with their access to corporate IP resources and other support functions. Amongst other business categories, Designer and Business Partner had the highest protection rate, again evidencing the higher maturity of this category.

However trademark protection is often not exhaustive. Many of the respondents have filed only for the company’s name without covering brand logos. Many have only filed in the UK, even though the vast majority of their products are sold internationally. This reflects

Figure 9: Financial Channels Used by Respondents: Overall

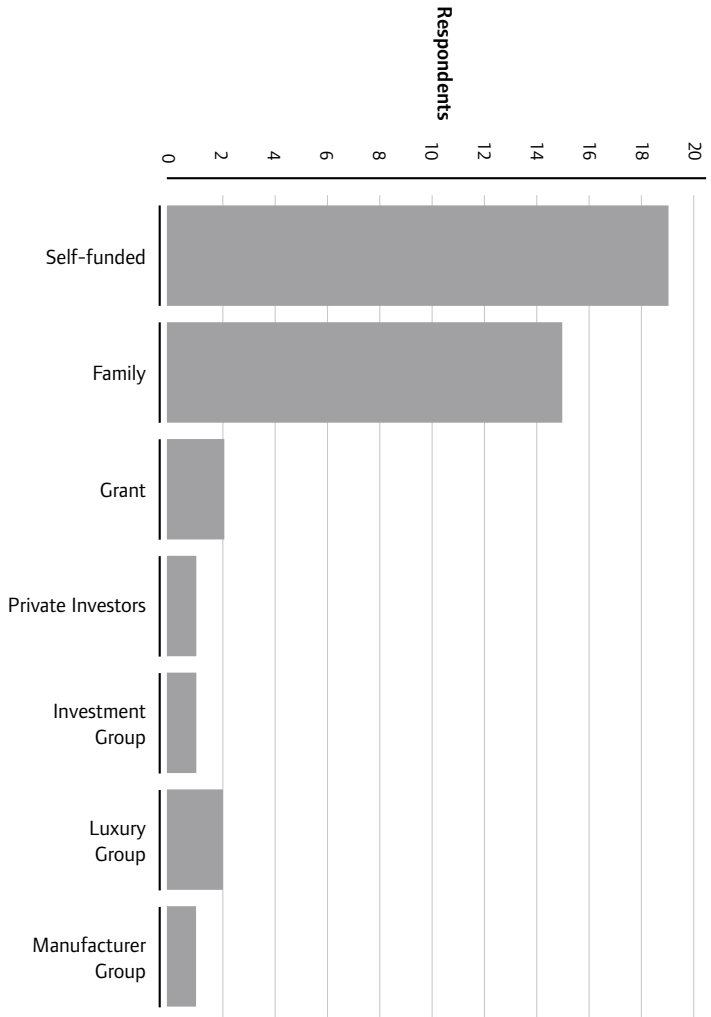


Figure 10: Trademark Protection use by Business Category

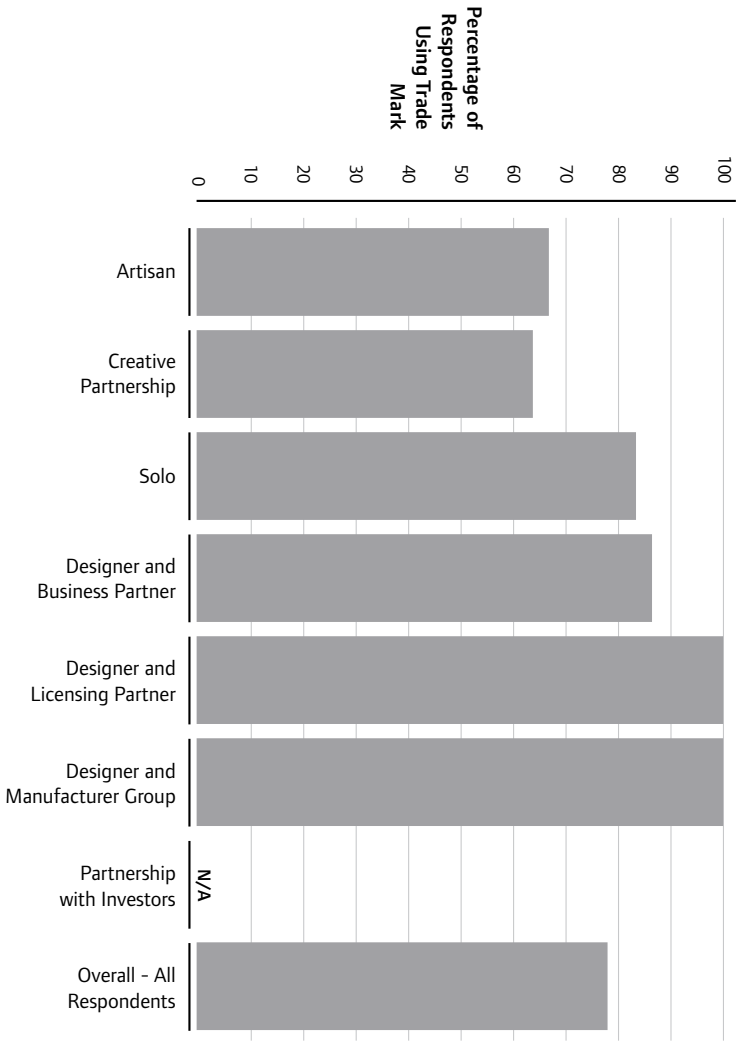


Table 15: Seven UK Designer Fashion Business categories

Designer business category	Size	Turnover per annum	Characteristic	Key Barriers to Innovation and Success
Artisan	Micro business	Up to £250,000	Artistic values preferred to business growth	Lack of management and marketing skills. Desire to stay small and independent
Creative Partnerships	Micro business	Up to £250,000	Consists of two creative individuals contributing to the business	Lack of business input (especially if both partners are creatives) and lack of investment
Solo	Micro business	Up to £250,000	A 'one-man band'	Insufficient management, and over-reliance on a very small team that usually consists of the main designer and freelancers
Designer with Licensing Partner	Small business	Up to £2 million	Has a percentage of turnover as income	Lack of necessary capital for further growth and expansion Will need additional investment to cross to medium size
Designer with Manufacturer	Small business	Up to £2 million	Manufacturer has share of business (usually 10-20 per cent)	Limited by capabilities of manufacturer
Designer with Business Partner	Small or medium business	Up to £8 million	One creative leader and one business leader	Designer likely to have limited income (usually 10-15 per cent of the turnover) from the label, but designers encouraged in their creative vision
Partnership with Investor	Medium business	Up to £8 million and beyond	Investor has share in the business, and provides managerial skills to the designer business	Investor may take control of vision and management

the costs of such protection: several designers reported that they could not see how it would bring value to their brand; they saw trademark registration as an extra cost for their company. Three designers report clear cases where their designs have been 'copied'; they dealt with the infringement through personal negotiation rather than lawsuits, as the legal process was perceived to be ineffective, costly and lengthy.

Very few respondents were aware of more sophisticated forms of Intellectual Property protection, such as 'registered design' rights. It was also not clear to what extent the designers insisted on strong IP clauses when dealing with UK and international manufacturers, either in the UK or internationally. Over time, this neglect may systematically undermine their

intellectual asset creation, as their unique designs may be leaking into the market to second tier producers.

4.6 Summary and conclusion

The seven business categories identified in this research describe how a designer fashion business evolves from the micro stage through to a larger operation. Each of these categories poses its own barriers and milestones that must be met before growing to the next level: there may be differences in approach to finance and investment, changes to IP or stronger partnerships with manufacturers. Table 15 summarises typical characteristics of each category, highlighting key barriers to innovation and success.

Part 5: Barriers to growth and recommendations

Our research has identified key barriers to innovation and success that inhibit the growth of designer businesses, and are specific to this sector, as detailed in Table 16.

Table 16: Barriers to growth

Within the designer business' infrastructure	<p>Access to cash flow and investment</p> <p>Lack of management and organisation</p> <p>Lack of entrepreneurship or fundamental business awareness in a significant number of fashion businesses at an early stage and through their educational experience is another limitation</p> <p>Poor communication between different parts of the Designer Fashion Economy</p> <p>As individuality and a distinct brand identity is a key feature of each business, each faces specific challenges and has key characteristics that influence the way it operates</p>
Within relationships with investors	<p>Fashion designers have poor credibility as businesses throughout the world</p> <p>Takes designers years to recognise they need investment if they want to grow and develop</p> <p>Better chance of a high return on investment if investor from fashion industry</p> <p>Investors more likely to be interested in a strong brand but strong brands cannot be created without investment</p> <p>Fashion design businesses are destabilised if investment has only 2-3 year exit strategy</p> <p>Investors have found that designers are not comfortable giving equity, even if their company is worthless as designers don't understand how equity can be used to support the business without relinquishing control</p>
Within relationships with manufacturers	<p>Problems with manufacturers regarding price, quality, minimums and delivery times</p> <p>Volumes are low, and designers have to pay surcharges to manufacturers for small orders of production and fabric</p> <p>Lack of relationship or partnership approach</p> <p>Low quality of commissioning of work and unprofessional approach</p> <p>Quality control</p> <p>Designers production timing are predominantly polarised within the two season model</p> <p>The services offered by manufacturers are more supportive in other fashion centres</p> <p>Lack of formal training opportunities in manufacturing</p>

Within relationships with retailers	<p>International buyers are not placing orders in London, or miss London out and spend elsewhere</p> <p>London Fashion Week is squeezed between New York and Milan Fashion Weeks</p> <p>Few designers are responding to the pre-season model and still only do two collections a year</p> <p>Big stores have harsh contractual obligations and extended payment terms</p> <p>Relatively limited high-end stockists globally for designer product</p>
Within relationships with intermediaries	<p>There is no over-arching trade body/organisation as there is in France from couture through to education</p> <p>Designers need to get sales and stockists before they start with PR</p> <p>Lots of press is no substitute for a good business</p> <p>Press is essential to attract key buyers</p> <p>It is difficult to get media interest when no longer a new designer</p>

This analysis has informed the development of a range of recommendations.

Vision

- The UK Government is not seen by the designers interviewed as supportive of designers, compared to other countries – numerous intermediaries and designers questioned why the UK does not have a Ministry of Fashion. In France, the Chambre Syndicale de la Couture Parisienne was formed to regulate its couture house members; and now it extends its expertise into education as well as supporting its fashion infrastructure.
- Of the designers interviewed, many are concerned that London designers do not tend to show in London once they have become established. This leaves London *“with a high proportion of emerging designers, possibly taking away credibility for London”*. They feel that a strategy to support designers wanting to stay in London would promote the capital as a major fashion city from which other designers can benefit.
- London Fashion Week is now squeezed between New York and Milan Fashion Week. But the New York trade fairs that follow their catwalk shows tend to keep buyers there. Designers worry that buyers inevitably fly direct to Milan without stopping in London and have requested a new strategy be considered to combat this decline in London’s importance to buyers.

- As a showcasing organisation, London Fashion Week should consider an event that highlights the sales opportunity that pre-season offers to London designers to attract buyers before they spend their budgets in New York, Paris or Milan.

Skills

- Our research shows that designers rarely have formal strategic management or financial training, but soon find themselves in the role of Managing Director of their businesses. Working with the established business schools, tailored management training courses could be developed and delivered, condensed into the ‘calmer’ periods of the seasonal calendar.
- Creative Graduates should be taught better entrepreneurial skills.¹⁰ Existing fashion education institutions should look for opportunities to work with business schools in developing courses and collaborative research.
- UK manufacturers are missing high-end skills apparent in their off-shore counterparts particularly in Italy and France. Appropriate intervention would develop the skill base in order to raise the quality and luxury finishing levels. DIUS should consider the development of a production managers’ apprenticeship scheme to alleviate a skills shortage. Fashion graduates could, for example, undertake a two-year placement in a top-end manufacturer in Europe.

10. HEA-ADM and NESTA (2007) ‘Creating Entrepreneurship: Entrepreneurship education for the creative industries.’ London: HEA-ADM and NESTA.

Investment

- The research indicates that investment companies will invest in a fashion brand but will not invest in a fashion business *per se*. BERR, in consultation with DFE stakeholders, should consider introducing an investment readiness scheme to address both designers' negative perceptions of investment and the investment community's negative view of the designer market.
- A brokering scheme, providing expert support from designers developing individual business strategies could be established by DCMS, facilitating networking between major buyers and small designer fashion businesses.
- Our research shows there is a lack of investment in new technology in the high-end manufacturing sector. DIUS should conduct a study of new technologies in equivalent manufacturers in France, Italy, and other global manufacturing leaders, working with DCMS and BERR to disseminate the findings.

Manufacturing

- There is a clear need for a manufacturing network of experts and a centralised directory for connecting designers with manufacturers in the UK and internationally.¹¹ The Manufacturing Advisory Service (MAS) is well placed to develop its expertise in the fashion sector and provide these specific services as well as other targeted assistance and business support services to the DFE. Centralised fabric sourcing advice would be particularly useful for new designer fashion enterprises.
- MAS should facilitate the development of a Quality Control (QC) Service to enable designers to inspect, ship and check fabrics. An industry endorsed 'kitemark' could be awarded to manufacturers, supported by a QC Manager who supports designers with UK manufacturing and does spot checks on quality.
- DCMS should conduct a feasibility study into the creation of a small scale high-end manufacturing facility to train designers in production management, and to train existing manufacturers in the sector in innovative practices. It could function as a hybrid between an R&D production

innovation centre and a garment laboratory, operating within an existing higher education institution.

Promotion and international marketing

- UK Trade and Investment (UKTI) should implement a proactive export marketing strategy, promoting high-quality UK manufacturing to export markets, perhaps following the example of Savile Row and Scottish cashmere to bring back the 'cool and accessible' Made in UK kitemark.
- Existing grant schemes, provided through UKTI to businesses new to export are too limited for small DFEs looking to internationalise rapidly. The restriction on the number of grants available per business should be relaxed for early-stage and micro-businesses.

11. Report Advisory Group Steering meeting.

Part 6: References

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Appendix 1: The research team

The project team brings together expertise from fashion academics within the London College of Fashion's Research Office and the business expertise of staff in the CFE.

The Principal Investigator for this project is Dr Neri Karra, who is Senior Research Fellow and Lecturer at London College of Fashion. Neri completed her PhD in Management Studies at Judge Business School, University of Cambridge in 2006. Her research interests include entrepreneurship and management in the fashion and luxury designer sector, creative new ventures, international entrepreneurship, family business, and qualitative research methods. Her research to date has been very well received by the academic community, and awarded as finalist in 'Best Paper in International Management' and 'Best Paper from an Academic Dissertation' by the Academy of Management in 2006 and 2007. Neri has published in *Entrepreneurship Theory and Practice*, *Long Range Planning*, *Organizational Research Methods*, *Ivey Business Journal* and *Organization Studies*. She also has written a book on international and ethnic entrepreneurship, titled *Beyond Borders*, published by VDM Publishing in 2008. In addition to her research activities, Neri also teaches Fashion Marketing and Business Strategy and consults for a wide range of fashion companies on their marketing and corporate strategy.

The overall Project Manager for the Designer Fashion Economy research is Jan Miller who is Business Development Manager at the Centre for Fashion Enterprise (CFE) and is responsible for interfacing between NESTA, CFE and LCF to ensure deadlines are met, oversee and manage budget and legal matters and co-ordinate the delivery of the final report. Jan is also

responsible for liaising with and co-ordinating the Steering Committee. Jan provided guidance on the development of the research and was part of the analysis and editing team for the final report. Jan has significant experience of successful project management of externally facing projects at the CFE and LCF, including significant funding applications and subsequent delivery of ERDF and RDA-funded projects, including a five-year business support programme focusing on the skills and technology needs of London's fashion design and manufacturing sectors; and a fashion design business clustering and showcasing initiative.

The concept, analysis and business modelling was led by Wendy Malem, Director of Centre for Fashion Enterprise since 2007 and Dean of Enterprise and International Development at London College of Fashion. She is responsible for chairing the industry Steering Committee meetings for this research project and aligning the research with the sector. She has significant fashion industry experience, working as an international high-end fashion designer for 17 years, holds an MBA, and has ten years of Higher Education senior management experience in fashion design and entrepreneurship. She co-presented the Arts and Humanities Research Council-funded creativity workshops entitled 'Balancing Creativity & Risk' in 2007 and her article entitled 'Fashion Design as Business: London' was published in July 2008 by the *Journal of Fashion Management and Marketing*.

The qualitative research element is co-ordinated by Senior Research Advisor, Dr Joanne Entwistle, Reader in Historical and Cultural Studies of Fashion at LCF. Dr Entwistle is responsible for working with and mentoring

the Principal Investigator (PI) and Research Assistants in order to develop the research work-plan, advise on and develop the research methodology in conjunction with the PI, recruit and monitor the research team and consult on early drafts of the final report. Dr Entwistle is author of several books and articles on dress and fashion, including *The Fashioned Body: fashion, dress and modern social theory* (Polity, 2000) and co-editor, with Elizabeth Wilson, of *Body Dressing* (Berg, 2001). She has conducted ESRC-funded research on Selfridges fashion buyers, soon to be published as a book *The Aesthetic Economy of Fashion* for Berg, (forthcoming, 2009).

The Research Assistants, Alice Mah and Onur Suzan Komurcu have been responsible for conducting the majority of the interviews with designers and other stakeholders. Regular team meetings have ensured that the researchers are closely monitored and supported.

Appendix 2: List of interviewees

Fifty-two companies and individuals were interviewed for this study. The following 43 agreed to be credited. The balance declined to allow their business or their own name to be credited.

Ally Capellino	Uni Designers	Shoosmiths
Peter Jensen	Midas Clothing	Queen and Belle
New Planet Fashions	Richard Nicoll	Self Service
Scottish Enterprise	Blow PR	Eastern Block
PPQ	Borba Margo	Byesse
Shirin Guild	Polly Noel-Storr	Erdem
Modernist	Basso and Brooke Olanic	Madeleine Press
Jens Laugesen Studio	Manchester Fashion Network	Zuzu Couture
The Sampling Unit	Bruni Couture	Belle and Bunty
Goat	The Communications Store	Fromsomewhere
Image Studio Production	JGPM	Todd Lynn
Vidler and Nixon	David Heys	Boudicca
Antoni and Allison	Vicky Martin	Vanessa Denza
RainbowWave	Deryck Walker	Orla Kiely

Appendix 3: Steering Committee membership

Chair

Wendy Malem	Director	Centre for Fashion Enterprise
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Members

Jan Miller	Business Development Manager	Centre for Fashion Enterprise
Dr Neri Karra	Senior Research Fellow and Lecturer	London College of Fashion
Dr Joanne Entwistle	Senior Reader	London College of Fashion
Dirk Kiefer	Business Research and Development Manager, Creative Economy Innovation Programme	NESTA
Simon Ward	Head of Operations	British Fashion Council
Nigel Rust	Manufacturing Specialist	London Manufacturing Advisory Service
Judith Rosser Davies	Senior Development Manager, Creative Sectors	London Development Agency
Ally Lloyd	Managing Director	Ally Capellino
Eva D'Arche	Managing Director	Uni Designers Ltd
Polly Noel Storr	Womens wear Buyer	
Michael Salac	Managing Director	Blow PR
Anna Cole	Account Executive	Blow PR
Rachael Parman	Solicitor	Shoosmiths
Obi Eijofor	Managing Director	Self Service
Dermott Rowan	Managing Director	Orla Kiely
Barbara Wilson	International Trade Adviser	UK Trade & Investment
Paul Alger	Executive Director	UK Fashion Export

We would also like to thank the following fashion professionals for participating in Workshop Discussion Groups with the Steering Committee:

Lezley George, Toby Meadows, Susan O'Reilly, Rafael Jimenez, Angela Quaintrell and Anna Brett.

Appendix 4: Centre for Fashion Enterprise business scale category rationale

The Centre for Fashion Enterprise (CFE) business scale category was prepared by the CFE Director for an Investment Matters in Creative Industries conference in Brussels, May 2008. The category is based on four areas of research: analysing cash flows; tracking investments and turnovers in the Designer Fashion Economy through Companies House data; dialogue with investors; and press coverage of turnovers, profits and investments in the fashion design sector. The purpose of the analysis was to understand the barriers to investment in designer fashion businesses.

The segmentation helped identify where financial intervention was most needed to stimulate growth and capitalise opportunity. It concluded that there was an investment gap between £2 million and £8 million where businesses could no longer access government-funded financial support or attract small financial inputs, yet were below the radar of venture, corporate and private investors.

Micro business includes start-ups, and cash flow analysis identified a level of £250,000 p.a. turnover that was relatively easy to achieve by designers who had good press coverage and were strongly networked but where no business structure or strategic relationships were in place. The CFE recognised that moving beyond this point required a change in mind-set or infrastructure. There is no income to the designer below this point.

The £2 million division between small and medium business is difficult to cross. This is the comfort line beyond which designers can begin to earn some income. Cash flow analysis indicates that a business with a developing and consistent global market can progress providing they have human capital of at least 12 people,

good and stable manufacturing relationships and sufficient cash-flow to support growth. Designers may reach this point and then bounce back at least once, as their products, businesses or relationships change, and/or global external factors influence exchange rates, markets and consumer demand. It is a significant milestone and we suggest that a high proportion of designers reside between £500,000 and £1 million, well below the £2 million annual turnover line. The £2 million division between small and medium businesses is significant when it comes to investment.

Venture capital and luxury companies have said in discussions with CFE that they are not interested in fashion businesses below the £8 to £10 million size. So this division is the barrier to corporate investment but there have been recent fashion sector investments in this segment. £10 million to £249 million is attractive to investors where financial investment can lead to worldwide distribution of a large fashion designer company.

Above £250 million turnover are fashion designer businesses like Paul Smith or Comme des Garçons who are differentiated as a high profit fashion business of world renown but also with multiple presence in every global fashion centre. Beyond a billion turnover are the superbrand empires like Giorgio Armani, who are dominant global players.

Appendix 5: Centre for Fashion Enterprise business scale category for the designer fashion sector

	Micro company	Small company
Age	Not relevant	Not relevant
Turnover p.a.	£10,000 to £249,000	£250,000 to £2 million
No. of stockists	2 to 10	15 to 50
No. of full-time employees	1 to 2 usually designer and manager – alone	2 (Designer, plus a Studio Manager) to 7 (incl. production manager)
Other employees	2+ un-paid interns; plus approx 2 freelance pattern cutters/machinists. Friends help out	4+ un-paid interns; plus approx 4 freelance pattern cutters/machinists/stylists employed as needed during the product development cycle
No. of intermediaries contracted	Freelance PR agency; possibly a sales agent; maybe accountant, legal	Freelance PR agency; possibly a sales agent; accountant, legal
No. of collections produced p.a.	2 to 4; one for autumn/winter; one for spring/summer and the more experienced doing either seasonal pre collections, diffusion type collection or consultancy collections	2 to 4; one for autumn/winter; one for spring/summer and the more experienced doing either seasonal pre collections, diffusion type collection or consultancy collections
How are sales made?	Personal contacts or perhaps contracted sales agent	Likely to be through a contracted sales agent or exhibitions
Own store?	No	No
On-line sales?	Usually only through on-line stockists	Only through on-line stockists. Does not have own on-line store at this stage
Any products other than ready-to-wear?	Perhaps but unusual at this stage	Maybe small licensing contracts with footwear, sun-glasses or accessories (bags) brands. Note the designer is likely to be paid a fixed design commission, rather than per cent of net profits based on sales
Examples	Start-up and early-stage businesses	Eley Kishimoto 2007 £-820,000**

* Information Source FAME: Jordan Watch Database of Major Public and Private Companies

** Information Source NEXIS: www.nexislexis.com. Hoover Company Records

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	Medium company	Large company
Age	Not relevant	Not relevant
Turnover p.a.	£2,000,000 plus to £8,000,000	£8 million to £249 million
No. of stockists	50 to 250 approx and one distributor in a major market	250 to 500 (worldwide)
No. of full-time employees	10 to 30 (Designer, in-house Sales Manager; Studio Manager; Production Manager; a book-keeper)	30 up to 700
Other employees	8 to 25+ un-paid interns; plus in-house pattern. Has a business partner or managing director. In-house pattern cutters/machinists. Influential stylists. In-house sales director. In-house production and sourcing team. In-house book-keeper/ financial controller	Will still take interns but more to give something back than as a necessary part of the workforce. Will have bought in high level management skills in a CEO. Structures management structure
No. of intermediaries contracted	Accountant and legal advice	Auditors and legal team Consultants for new ventures
No. of collections produced p.a.	6 to reflect international markets, diffusion lines; plus pre-collections for both seasons	6/8 one for autumn/winter; one for spring/summer; plus pre-collections for both seasons; plus cruise; plus maybe other seasonal collections (Xmas) plus diffusion lines
How are sales made?	Likely to be through in-house Sales Director; but maybe with specialist regions (e.g. Japan) through an agent or distributor	In-house Sales Manager; and team, regions (e.g. Japan) through an agent or distributor, use fashion capital exhibitions
Own store?	A key flagship store in a destination location would be usual	A flagship store in more than one location is important to building the brand
On-line sales?	Likely to have one on-line stockist and maybe exploring own on-line store at this stage	Yes
Any products other than ready-to-wear?	Growing small licensing contracts with footwear, sun-glasses or accessories (bags) brands; maybe swimwear and lingerie collaborations. Perfume maybe. Note the designer is likely to be paid a fixed design commission, or per cent of net profits based on sales	Yes, based on per cent of net profits based on sales
Examples	Matthew Williamson Holdings Ltd Turnover 2007 £7,950,1531* Margaret Howell Ltd Turnover 2007 £7,532,078* Betty Jackson Retail Ltd 2007 £-3,690,000**	Kurt Geiger Holdings Ltd 2005 £111,096,000* Luella Bartley Ltd 2006 £-11,000,000**

* Information Source FAME: Jordan Watch Database of Major Public and Private Companies

** Information Source NEXIS: www.nexislexis.com. Hoover Company Records

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	Designer brand	Superbrand
Age	Not relevant	Not relevant
Turnover p.a.	£250 million up to £1 billion turnover	£100 million up
No. of stockists	500 plus	Own retail stores and private clients
No. of full-time employees	600 up to approx. 2,500	2,000 to 5,000
Other employees	Consultants	Consultants
No. of intermediaries contracted	New opinion former consultants Key revered international intermediaries like photographers, writers, film-makers	Key celebrities and licensing or franchising experts
No. of collections produced p.a.	6 to 8 for each major international market and season with pre-collections, targeted product lines and diffusion lines	Couture clients and 6 to 8 collections per year targeted to each international markets, targeted special collections, prêt-à-porter and diffusion lines
How are sales made?	In-house Global Sales Director and international teams	In-house Sales Manager; and team, regions (e.g. Japan) through an agent or distributor, use fashion capital exhibitions
Own store?	A flagship store in all major fashion cities to position the brand	A flagship in all major fashion centres for mainline and a series of diffusion stores globally
On-line sales?	Yes but not necessarily own on-line store	Only own on-line store
Any products other than ready-to-wear?	Yes, own negotiated branded licences	Yes, multiple ranges of product ranges based on per cent of net profits based on sales
Examples	Commes des Garçons Co Ltd Turnover 2004 £289,388,104** Mulberry Group PLC Turnover 2007 £450,798,000*	Giorgio Armani Turnover 2005 \$1,691,200,000** The Prada Group Turnover 2004 \$1,991,400,000**

* Information Source FAME: Jordan Watch Database of Major Public and Private Companies

** Information Source NEXIS: www.nexislexis.com. Hoover Company Records

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Appendix 6: Case studies

6.1 Artisan designer

Designer 'A' happened to launch his business by accident. His work was seen at his graduation catwalk show and led to immediate sales orders from two leading and influential stockists, Maria Louisa and Selfridges. The press quickly picked up on the designer, and so the brand was formed. Awards and sponsorship schemes soon followed, and have funded the development of the designer's profile and his ability to do seasonal catwalk shows ever since. *"... and the shows, I was always very lucky I was invited so I never had to invest a lot of money in the showrooms in Paris and stuff like that."*

PR and press

Continuous good press coverage and well connected industry champions such as Sarah Mower (journalist), Caren Downie (former buyer for TopShop) and Maria Louisa (leading women's wear boutique in Paris) have been important to the designer's success to-date. However, the following detailed quote indicates that the Artisan Designer infrastructure has a very fragile foundation:

"Well in three years it became more and more difficult to grow and in five years the same problem. You can grow quickly in the beginning but then the bigger you get the more cash flow problems you get. The funding is bigger, the studios become bigger, you need bigger premises and suddenly the money you can survive on in the first year or two is possible but in the second and third year it's not possible because it is unrealistic, unprofessional and artisan in the first year, amateurish! That is not how you should live, you know, it's not 'normal'. So when you think, no this is not 'normal' anymore until you have a proper salary, suddenly

then it all breaks down. Because it's only a house that is falling apart because there is no business structure and there is no profit anywhere. What looks like a little profit is actually a massive non-profit because it should have been used for something like a cost – like people work for free – so if you put the real cost into what we do, nobody would have a business in London, none of the people who show in London Fashion would actually survive."

Despite this pessimistic view, Designer A has grown to an annual turnover of around £250,000 in just six years (80 per cent sales; 20 per cent sponsorship), and develops two collections each year. He deals with all the core business functions himself: design, sponsorship, and marketing. He shares production management with his assistant, and hires a sales agent and PR agent. There is also a team of interns.

Sales and retail

Designer A contracts a sales agent who sells at the trade fairs in Paris, Milan and Denmark. He has 20-30 stockists, including two online, which are spread evenly internationally: three in Australia, two in Japan, two in Hong Kong, three in the US and ten in Europe (including five in Scandinavia, plus Russia, Iceland, Turkey) and one in South Africa. His strategy has been to get one key stockist in each of the major capitals so that his brand gets endorsed in the market place. But he describes the relationship with retail as very fragile:

"They are established but they are also very precarious. If you have one bad season they can let you go like that... You never know, every season you think you will close down... that's how fickle it is: this season six stores

haven't paid me yet at the end of April. It is a very bad sign, that's really bad. That's 10-15 per cent of my turnover."

Manufacturer relationships

"Because it is artisan my collection, nobody abroad would accept to do the collections, well, the quantities I do."

He struggles with the issues surrounding low quantities, high costs and the high quality standards demanded of the sector. Production is currently limited to London, but he is critical of the manufacturing infrastructure and standards.

"It's just difficult in London because it's not like professional, it's more amateurs trying to do industry but it's not...everything is artisan."

Specific bad practice that he recently encountered includes manufacturers accepting orders from him, only to cancel if a larger order comes in: *"it's not ethical but it's quite normal."*

Finance

Despite significant awards and sponsorship offered to the business for PR and catwalk events, he recognises the need to fund core business development activities and he prepared his first business plan six years ago in order to secure a bank loan. He has since remained self-funded, through sales orders and sponsorship and a small DTI loan.¹² But he can see that designers need further funding if they are to develop a pro-active sales strategy and not just an opportunistic one.

Designer A is unlikely to accept support from any potential investors due to past bad experience.

"He came to try to sign me off twice, three times, so I had to turn him down all three times because it was always about his conditions, never about the compromise in the middle and if you want to do business you need to meet in the middle, not on one person's side; and he had some very unethical ways of dealing with new designers."

He is also savvy enough to recognise that:

"...because it's a kind of one man shop, there's no management in place for an investor. It's a bit like, 'it's not really a company!' And because of lack of

management it's not really attractive, it's a bit dangerous, you know, it's renegade."

On reflection

"So you know, it's like all these together makes it possible for us to continue to promote the image even if we don't have a viable business. We're trying to make a high fashion brand. It is not a business and it can never become a business without extra money. Everybody knows that but they do appreciate that it is important for the industry and without people like us in the industry it would be very boring, even if it is only the Italy brands, the American brands and the Paris couture brands, it would be quite boring so they need this kind of young energy that the designers can produce, new ideas all the time. The industry really needs it to be inspired otherwise it is just a commerce."

"People like us can't really plan anything because we are like the last fish in the chain."

6.2 Solo designer

Designer 'B' launched his brand in 2004 and has been trading for eight seasons. This is his first business. He works very independently, with no paid employees and no strategic input or support, dealing with all core business functions: design, marketing, sales and production. He works with three friends and a team of interns: *"...it's quite a charitable set-up at the moment"*. Collection development to-date has been focused on two seasons per year.

PR and press

Designer B sees that he gets a lot of valuable press coverage, with a London-based PR who is providing services free of charge whilst the brand is young and small. He has done four catwalk shows since launching. He recognises that they weren't necessarily part of a strategy: he was invited to show, so he did:

"The great thing about catwalk is that it does actually put you right up there. It's just disappointing when you get all those people in the room and no buyers phone up, but for prestige it's great."

Sales and retail

Designer B has always managed sales activities in-house. He has tried various trade fairs with little success (London Fashion Week and

12. The former Department for Trade and Industry, now BERR.

Rendezvous and Atmosphere in Paris); similarly, various sales showcase opportunities haven't worked out:

"We get invited to so many things just because they want you in there and it turns out it's not worth it, so I think I have to just make more appointments."

The majority of past sales have been in London and Japan, plus one stockist in Paris. He has also had a number of enquiries from the Far East and sees that as a key region to target in the future:

"I think people are being very careful with what they are buying...they think it a risk to take on a new label. I also think that when people start buying into you it's really hard to get them to stay with you because you are new. I think a lot of retailers should try and work a bit harder with a new brand."

Manufacturer relationships

He closely manages the production process himself and has built up some great relationships with UK production facilities, although he has had to change production units *"lots of times"*. Manufacturing relationships have been built on trust, and he has been able to work flexibly with them on payment terms. Production has previously been focused in the UK and Scotland, and the designer is now aiming to have four different production units lined up for next season, thereby spreading risk. Each manufacturer will have its own specialism, and he is also looking further afield to Poland and China for new tailoring units utilised by a couple of Savile Row businesses.

Finance

"The main problem I have at the minute is trying to get the sales in."

Sales have been weak for the past couple of seasons, so the business is currently not taking any orders. Small orders are considered more trouble than they are worth. He is currently working with advisers to develop a strong sales strategy for the coming season, and maybe secure ten stockists over the next year. The designer intends to write down the business plan, which is currently in his head, attract finance/investment and achieve a stockist list of around 35 stores in the next five years. He recognises that he is no good at the selling process, but doesn't have the resources to employ dedicated sales staff and hasn't considered contracting a sales agent.

The designer is focusing on working with collaborators and sponsors to build the name of the brand, and secure some forward funding. The business was started with no funds and cash-flow is an ongoing concern: *"Banks won't support fashion businesses... If I could get a financial backer it would help me immensely."* Designer B currently survives on around £25,000 sponsorship per season. He is also about to start a consultancy for a manufacturer, as well as a part-time teaching contract to support himself.

He hasn't yet built up enough surplus funds to register the brand's trademark (which utilises a recognisable motif). There have been two recent incidents in which a major luxury label has used his motif on their handbags, and a major High Street fashion store has featured it heavily as part of window display themes. As soon as funds are available, trademark protection needs to be addressed.

On reflection

Designer B gained a Higher National Diploma (equivalent to a foundation degree today) before moving to London, potentially to do an honours degree. Instead, he found himself working with other designers. He never returned to college or training.

"So everything that I have done or built up has just been through doing it and finding out along the way... At the end of the day I am a creative person who has started up his own business maybe not realising the self-inflicted obstacles... If anything, I would maybe have worked a bit longer in the industry and tried to raise more finance for my business."

6.3 Creative partnership

Designers C and D met at University and formed their business when they graduated in 1987. They had a strong mutual admiration for each other's work and talents. The business was founded as an *"idea-based thing...there was no great master plan."* But they are still in business over 20 years later. They work very intuitively, and have never been driven by high growth or financial rewards:

"We've never had a business partner, we've never had anybody with a very specific business mind... Our work has kept its freshness because of that, because we haven't gone down a corporate route."

Over the years the business operation has grown and shrunk again. At one point they employed about 20 people undertaking the various business functions, but the designers' roles became less fulfilling, so they now outsource as much as possible, and employ a small team of six, including themselves:

"I went on a business course for about a week... You had to write a business plan based on what you would be doing in five years time. Who knows what's going to happen, we don't even know now. So we weren't that interested. It's a bit rebellious really..."

"We work together and we are very fussy in what we decide to do. That's our uniqueness...we work in a bubble."

PR and press

Despite being a business that has traded for over 20 years, the designers still maintain a no-advertising policy, relying on word-of-mouth instead. They do catwalk shows during London Fashion Week to maintain their London designer profile and they have a London-based PR agency, but are currently changing to get some fresh ideas into the business. *"I think press is very important. It's the only thing we were taught at College X, that it's very important to have a PR, and it is."*

Sales and retail

The designers sell to over 100 stockists spread out across most international territories. Japan and Italy are the strongest markets, since they have a strong appreciation of the designers' highly individual style. They have a number of sales agents contracted in places like Russia, Japan and Italy. Trade fairs are the main route to market, which includes London, Paris and Milan Fashion Weeks. However:

"London is not that important. It is good for local people and we do pick up people. We are British designers, we are based in the UK, we try to manufacture in the UK, then we should try to support it by showing it here and selling it here."

Ten years ago they opened their flagship store in a destination location in London. It has become an important extension of their creativity and a *"mini emporium of our idea...a piece of inspiration"*, but they also value it as an opportunity to see *"real people"*.

Accessing the consumer and market testing is now also being realised through their website

and an online shop (launched two years ago) is being used to access the consumer and for market testing:

"It is a really fascinating thing to see what people like and what people go for. We tend to try things out on the website and a buyer might buy one thing, the press might go for something completely different and actually a customer might go for something completely different, so it's quite an interesting thing."

Designers C and D produce two main collections each year, plus a number of collaborations and licensing lines for other brands, often via their licensing agent. The lines extend to homeware, ceramics, children's wear and make-up.

"There are certain things which you do that make you money which allow you to do other things which aren't about that. We have always worked this way but they all have to be quite interesting."

Manufacturer relationships

The designers' manufacturing requirements are low volume, high quality niche production. They have always tried to keep as much manufacturing in the UK as possible. They have no sewing or production equipment in their studio, so all sampling is done at the factories. By keeping it in the UK, the designers can monitor production more easily and respond if there are problems. They have felt things getting a bit out of their control when they have tried to go abroad. Nonetheless they are currently researching production in India and China.

Finance

This partnership has always been very careful to be self-financed. They have never accepted a business partner or outside investor:

"That's been the golden thing so many people always searched for – backing – but unless it is a massive company that absolutely is there for you, is there to build you up and protect you and look after you...most times we have seen it has been a disaster and they've lost everything."

On reflection

"Oh, just don't listen to anybody, just get on with whatever you want to do and certainly don't read any fashion magazines!"

6.4 Designer with licensing partner

Designer duo E launched their brand in 2004, through winning a coveted award scheme. This was their first time in business, having previously been freelance. The award opened up a new network to the designers and they were spotted by an Italian luxury fashion group (Company Y) known for developing, producing and distributing international luxury designer collections. The designers were offered an exclusive licensing contract for their ready-to-wear collections.

Company Y has no financial stake or investment; instead it offers a full management and cash-flow support infrastructure. Company Y is responsible for managing and funding sales, customer services, production, distribution and marketing. The designers are so heavily supported by Company Y, that there is no need to employ anyone else within their business; they are left alone to be creative. Their responsibility is restricted to design and product development to meet Company Y's sales targets, as well as developing and maintaining their brand.

PR and press

Design duo E contract with a London-based PR to assist in maintaining their fashionable London brand profile. They also do London catwalk shows each season funded by sponsorship:

"Press and sales go hand-in-hand, so, yes I think it is extremely important. We get more press support internationally than with the UK press and there is a lot of politics involved...between journalists."

Sales and retail

They launch two collections a year, but this season they are launching their first cruise collection. The last collection included around 150 pieces.

"We concentrate on getting a very sellable core range so that we know that the things that are on the catwalk are not necessarily commercial. We still have a good selling collection, so I think we've learnt to make sure we have that each season."

The designers have nothing to do with the sales process, and have limited contact with buyers. Company Y drives the sales targets hard, and the designers project an increase in sales of around 300 per cent within the next three years, though they are excluded from the sales strategy development process. *"I don't*

really know what their plan is. Should I know that?"

The duo's designs are stocked in approximately 70 stores, including one online store. Russia, Eastern Europe and the Middle East are the biggest markets where their 'showy' designs attract new money. Company Y hosts buyers' appointments from its showroom in Milan each season. The company shows at the Tranoi trade fair in Paris, and makes buyers' appointments separately in New York. Company Y also handles all stockist relations with the high degree of professionalism demanded in the luxury sector.

The designers recognise that they need to broaden their product offer. They have identified a new licensing agent who is looking at other licensing opportunities. They are also working at broadening the range of creative collaborations. New licensing and collaborative projects include bags, shoes, homeware, textiles, ceramics and candles.

Finance

Designer duo E has never had operational cash-flow management problems since Company Y has funded the acceleration of their label into the market, as well as all the sales and production overheads. However, they recognise that to grow their brand they need to change their business category. Working in partnership with a major luxury company has taught them that investment will be needed to develop advertising campaigns, launch flagship stores and take the label to the next level as a serious contender alongside major international labels.

The growth of the designers' brand has led to registration of its trademark this year, but only as a direct result of contractual restraints enforced by Company Y. Without this enforcement, the designers may not have registered for some time yet as they had not been fully aware of the significance of trademark.

6.5 Designer with manufacturer

The Designer G brand was established in 2003. It started out as a Creative Partnership between two designers, but was soon joined by one of the designer's partners as General Manager; they then formalised an innovative partnership with an India-based manufacturer.

PR and press

The designers handle all PR and marketing activities in-house to minimise overheads. They consider themselves fairly pro-active in developing relationships, product placements, meeting with stylists and agents for celebrities etc: *"without PR, people don't know you, so it's difficult to sell."*

They have also tried other communications tools, including: *"MySpace, but it kind of then died and we were a bit late with that. We are looking at Facebook but to be honest it is not really our target customer. It's a bit young."*

Sales and retail

The designers undertake all wholesale sales activities in-house. They have tried exhibiting at Tranoi in Paris, but found that their core business is generated at a London Fashion Week stand. They have 15 stockists at present, primarily small boutiques, plus two online retailers. This season, the designers launched their own 'e-boutique', and will be testing out new styles and concepts there.

The designers have a small portfolio of consultancy work which helps to bring in other revenues. They also have two licensing agreements; one with a major High Street retailer, which hasn't reached product development yet; the second is linked to their manufacturing partner's shop in Goa, which markets an exclusive beach-range for the designers.

The designers have sold to as many as 45 stockists since the business launched. The fluctuations in stockists' loyalties have left them feeling slightly jaded; and their response has been to explore developing their own retail outlet to provide them with a higher return. Consequently, this season they have converted the front of their studio into their own boutique:

"Now we are opening our own shop; we've still got the two seasons a year but we're able, on a weekly or monthly basis, to do smaller runs and pieces that are just for the UK rather than abroad, and constantly bring things into the shop and get feedback directly. Before that we were wholesaling and all we ever rely on is what the boutique tells us is selling and isn't selling and they never buy the whole collection, they only buy a small bit of it. So, for the first time, we have got the whole collection out and you've actually got feedback from people so you can actually decide... My growth would come through from the retail side and to

be honest, we are really pushing the retail because we're slightly fed up with stockists not paying, and also not representing the collection properly. So if we don't grow to more than 15 stockists, but the retail is doing well, then we are kind of happy."

Manufacturer relationships

Prior to launching their business, the designers were lucky enough to get an overseas scholarship linked to their degree courses, and spent time at a high-end manufacturer in India. This resulted in a close business relationship with the manufacturer, eventually formalised into an investment in return for equity in the designers' business:

"We do all of the manufacturing with a fully integrated manufacturer. We don't actually manufacture anything in-house, so we don't make any samples or anything. We really need it more on the press marketing side and just generally...part of our company is owned by the manufacturer in India and we have some investment and sampling from him. Also, when we go into production the goods come over, we deliver them, we get paid by the boutique and then we pay the manufacturer, whereas usually you pay the manufacturer first and then deliver to the boutiques. So our cash flow is a hell of a lot better than if we had to pay up front for the goods; the manufacturer is the last one to get paid at the moment."

Finance

As the designers' brand develops, it is starting to feel restricted by the limitations of the manufacturer's capacity in terms of textile and product types. The designers need to broaden the collection, but cannot within the confines of the current partnership arrangement; they will need further investment to be able to move forward.

On reflection

"I think too many companies are not willing to give up a percentage of their business and you think well, good luck to you, I'd rather give up 20 per cent and still be here, than a lot of people we set up with who have gone."

6.6 Designer with business partner

Designer H launched his business in 1991, initially operating as a Solo business category. His 'life partner' ran a successful interiors business, and had valuable management

expertise, so it was natural for the partner to become a formal part of the business, offering the strategic and operational input that has grown it into a £2.5 million business. The designer's high quality niche clothing has built a strong loyal customer base amongst stockists and consumers.

PR and press

Designer H has stuck to a low-key word-of-mouth PR strategy, without any PR agency. However the business is currently considering whether to take on a PR agency in the near future. Catwalk shows have never been felt appropriate to the brand, although the designer did one fully sponsored show during London Fashion Week in 1997.

Sales and retail

This business has a full time sales manager, supported now by two regional sales agents. They sell three collections each year: two main collections, plus a resort collection. The key routes to market are the trade fairs in New York and Paris. The Vendôme trade fair in Paris is by far the most important, as it positions the company alongside high calibre brands. The designer is currently stocked across 100 international boutiques and stores, some of which have online operations. The biggest sales come from Italy and America, and these stockists also show considerable loyalty to the brand: *"they stay with us; I would say that that 60 per cent have been buying for more than eight years and are quite key."*

Building strong customer relations has been important to the business. Loyalty from the stockists is being repaid:

"Our approach is very much a relationship – you help us, we'll help you... That means that our minimums might slip a bit...if they receive something and one particular item bombs completely, then we might take it back and try and give them something else."

Alongside the wholesale operation is the flagship store staffed by three, with a showroom above. The store was opened five years ago and generates 20 per cent of the business' sales. Feedback from customers is very positive. They feel part of the whole creative brand experience when they visit the store.

Manufacturer relationships

Designer H has always had a strong knitwear element in his collections and aims to keep re-inventing his product every season. The business has always been at the forefront of

innovations: it was one of the first businesses to use paper in knitwear. The same is true of its early adoption of seal fibres. This innovation is key to the brand identity and all stockists are provided with seasonal product information on the yarns, fabrics, and the designs.

The designer has a strong UK manufacturing ethic, aiming to maintain production here, despite manufacturing tensions.

"The same as everyone else, we are just reliant on fabric deliveries, quality of production, maintaining of standards. It's very sad that this country has such a small manufacturing base as it does and so inevitably you work with smaller companies who are able to give you a competitive price on the manufacturing side but then they always run the risk of being in business or out of business... I think there were only two or three knitting factories in this country who could produce our garments, so we didn't really have much choice... The majority of people at our level, at the luxury end, end up having arrangements either with Italian manufacturers or with Far Eastern manufacturers."

Finance

The business has been completely self-financed from the start, though with occasional bank loans. Invoice factoring facilities have also provided some security to pay production costs ahead of receiving payments from stockists.

On reflection

"I think it's really the cash flow, to understand what it means to have this sort of business and if you are suddenly going to become flavour of the month and you are going to take half a million pounds worth of orders, you're going to have to have a quarter of a million pounds in the bank to finance it."

6.7 Partnership with investor

Designer F launched his brand in 1993 and has moved through four distinct business categories over the past 15 years.

He first worked independently as a Solo Designer, subsequently growing into a Designer With Business Partner category which brought in some funding and enabled him to increase his profile to a point where he was picked up by a licensing company in 2002 (third business

category). More recently his business has attracted significant investment in return for a share of the business' equity.

Early business categories

The early stages of the business were a struggle. After four years, a full-time Studio Manager was employed to provide structure. Sales were subcontracted to a sales agent, whilst marketing, PR and production were managed internally. Consultancy, art projects and sponsorship became very important in providing financial stability. Sampling and production were executed in London initially, but as soon as order volumes increased, production was moved to Italy, where it has stayed ever since.

"We've had problems with quality not being good enough. Sometimes sizing has not been correct, sometimes delivery has been very bad and not really having much of an opportunity to do anything about it... We were grateful that somebody would make a collection... Before we had the licensing agreement, we always struggled with minimums on fabrics, on production costs, so we had all those struggles and then we had the struggles of managing the cash flow so that we could do the sampling, do the production, so it was the financial difficulties as well."

Designer with Licensing Partner

In 2002 the designer joined with a licensing partner, allowing him to focus on creativity, and also relieving anxieties about cash flow. The licensing partner took on all the financial risks, funding all sample development, production, sales overheads (via their showrooms in Paris and Milan) and distribution management. This was a major attraction of the relationship. Within two years, Designer F was able to add a diffusion line to the main collection, as well as introducing shoes.

Within the Licensing Partner relationship, the designer was responsible for all design/product development, for maintaining and developing his brand profile, and for brand protection. Previously, he had not been particularly savvy about trademark registration, but soon learned. All PR and showcasing activities were steered and funded by the designer. He originally did catwalk shows in London, but since 2001 has been showing exclusively in Paris in order to enhance his international visibility. The PR agency contracted to promote the designer was chosen because of its international presence. It has offices in London, Paris, Milan and New York.

"We always had a relatively large amount of press even though we are not advertising or anything so we have been quite fortunate. People have used the garments in editorial because, you know, a lot of magazines have to use a certain percentage of the advertisers in the editorial, so it is a tricky thing but because Designer F's ideas are interesting I think he has been able to get coverage."

"Then mid-way through this we started to look for a possible partner, something to help the business grow... We were looking to the next level to see what we could do... I mean the business wasn't able to grow, we needed more people, we needed more products, so it was really in order to expand the business, to be able to have more products, possibly wider distribution."

And to the future...

Earlier this year, Designer F accepted an investment from a major Italian Fashion Group in return for a stake in the business. It is still early days for the new business structure, and management and operations are still bedding down. However he expects that sales will now increase significantly and there will be a drive to increase the business' outputs in terms of creativity. He currently produces two main collections a year, plus two diffusion lines. This will increase. He currently sells to over 120 stockists world-wide, including a few online retailers. Sales growth is expected to be up by 30 per cent in the next year; doubling in two years. The sales strategy will be stricter:

"The licensing company will sell more or less any amount and they haven't forced people to kind of buy in groups, whereas what will probably happen with this new set-up is to actually be able to say to the stores, well you know, there are five sections in the collection and you have to actually buy a section of each of it, so that the collection is represented correctly in the store; rather than, sometimes people buy just what they like and then someone goes into the store and they think, oh God, do they only do jersey."

There are currently no plans for licensing. The investment company has access to a powerful operation of marketers, sales teams and high-end Italian production facilities. These will be maximised to generate gross income to the business, in contrast to the smaller net-income generated through licensing.

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